The History of the Confederate Treasury

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A Dissertation Presented to the Board of University Studies of the Johns Hopkins University for the Degree of Doctor of Philosophy.

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[From Publications of the Southern History Association for January, March, May, 1901.]

PRESS OF HARRISBURG PUBLISHING CO HARRISBURG, PA.

1901.

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CHAPTER I.—CREATION OF THE TREASURY.

The history of war is not alone the account of the movements of hostile men. Other agencies than bullet and bayonet have their share in deciding the issue. Valor and numbers are largely determining factors, yet economic forces play a part whose importance needs to be carefully measured. The war chest of a Frederick the Great indicates one method of establishing an absolute guarantee of victory. Modern conflicts cause to be levied, when the emergency arises, more direct contributions from the accumulations, possessions and transactions of the nations' subjects. That people which has the full enlistment of its financial resources and the mustering of its complete industrial strength is well nigh thrice armed.

The Confederate States of America was naturally engaged from its inception in a struggle for existence. The creation of its Treasury and the establishment of a revenue were a concern of vital consequence, which was to be vastly emphasized by the mounting demands of a land widely assaulted. Thus the test from the start was the more severe in that the Treasury was engaged in deficit financiering. Every device which opportunity or neces-

sity could urge was the subject of experiment by the Department in its efforts to supply the sinews of war.

In addition to the ordinary fiscal operations there devolved on the officials the diverse and difficult problems of loans, currency, taxation, commerce and produce purchasing. The study of these activities suddenly thrust on the Treasury will portray phases of public finance, profitable both for instruction and for warning.

The Provisional Congress of the Confederacy of six Southern States met in Montgomery, Alabama, February 4, 1861. Within four days the Provisional Constitution was drafted and adopted to remain in force one year. The United States laws in operation on November 1, 1860, and not otherwise inconsistent with the new instrument were enacted as binding on the Confederacy. The following day brought the election of the President and Vice-President, while the interval until the inauguration on the 18th of February was occupied by the organization of an army and a navy, the adaptation[1] of the former national system of revenue, the declaration[2] of a temporary internal free trade, and other appropriate legislation. Cabinet officers were to be appointed by the President for a term of six years, and the choice of Mr. Davis for his Secretary of the

SECRETARY C. G. MEMMINGER.

Treasury was announced February 19th to be Mr. C. G. Memminger, of Charleston, South Carolina. The experience of this gentleman consisted of a long service[3] in the Legislature of his State, where as chairman of the Ways and Means Committee he[4] had charge of the special financial measures, growing out of the crisis of 1837 and 1857,

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[1] Act of Feb. 14, 1861.
[2] Act of Feb. 18, 1861.
[3] Capers's *Life of Memminger*, pp. 106-186.
[4] Christopher Gustavus Memminger was born at Nayhingen, Wurtemberg, in 1803, and came to Charleston at the age of four; he was graduated from South Carolina College in 1819.

relating particularly to banks, specie payments and note issues.

Mr. Memminger was then in the Provincial Congress, serving as chairman of the Committee on Commerce. As the minister of finance he received his appointment before the Congress had formally created the Department, for not until February 21st was the law framed[5] establishing and defining the offices. Under the Secretary were Comp-

Organization of the Treasury.

troller, Auditor, Register, Treasurer and Assistant Secretary. The Treasury[6] in embryo at once found a local habitation for itself under the charge of the chief clerk of the Secretary, Col. Henry D. Capers. The first requisition on it to provide blankets and rations for 100 men, the first volunteers, a company from De Kalb county, Georgia, had to be met by the personal credit of the Secretary. The State of Alabama had offered Congress a loan of half a million dollars, but the bonds were not then available.

Within a short time the organization of the Treasury Department in its several divisions was perfected on the system devised by Alexander Hamilton. Several of the officials had served in the United States Treasury and had resigned to tender their services to the new government. Notably was Philip Clayton, former assistant secretary in Buchanan's administration, who now assumed the same position at Montgomery. C. T. Jones came to the register's office as chief clerk, well equipped[7], bringing from Washington copies of all the forms in use in the several bureaus. The second auditor, W. H. S. Taylor, had been twenty-five years in the employ of the United States. He said in his first report of December 31, 1861,

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[5] Session I, Ch. VIII, Confederate Acts.

[6] Capers's *Memminger*, p. 310.

[7] Capers's *Life of Memminger*, p. 319.

that after taking the oath to the Confederacy, when he went back to Washington to obtain books, forms and precedents he was sternly denied all access. The first auditor was Bolling Baker, who continued in his office to the end. A. B. Clitherall was register and E. C. Elmore, treasurer. There were assistant treasurers at New Orleans, Charleston, Savannah and Mobile. The depositories performed essential functions of the Treasury mechanism. They were located in the larger cities at first, their number being less than forty for two years, but increasing during the great funding operations by three hundred at a time. They were in a way the banking branches of the Department without the discount provision. Here public moneys were received and disbursed, government accounts kept, taxes prepaid for interest certificates, and the various Confederate bonds offered for sale. Under the funding acts they were to furnish the government securities in exchange for notes.

The Congressional provisions of the first session indicate that the financial system then in view had customs

Customs the Chief Source of Revenue.

duties for its chief source of revenue. All United States collectors who joined the new government were appointed with the original powers and pay. Free admission until March 15th had been extended to all meats, grains, provisions and war material. Revenue depots[8] were placed after that date in northern Alabama, Georgia and South Carolina, but duties were generally suspended on goods from border States expected to join the Confederacy. Upon the accession of Tennessee and North Carolina the interior customs offices were abolished. A provisional tariff of 15% *ad valorem* on coal, iron, wood and paper was adopted March 15th, and a duty of five cents per ton, called light money, was ordered on all vessels entering

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[8] Order of March 21, 1861.

ports. The Federal blockade early interfered with this policy of relying upon import returns, for on July 9th the collectors at all small ports were dismissed.

The first actual money came to the Treasury March 14th, through the Bullion Fund[9] of $389,267.46, in the hands of the State Depository of Louisiana, and $147,-519.66, the balance from customs at New Orleans, which sums were transferred to the Confederate Government by the Convention of the State.

To meet rapidly developing emergencies,

The First Financial Legislation

of Congress was the fifteen million dollar loan authorized February 28th. The bonds were for ten years, bearing 8% coupons, payable semi-annually. This interest was definitely guaranteed by the pledge of the duty of 1-8 of one per cent. per pound on all raw cotton exported after August 1, 1861. The interest coupons were receivable for this export duty. This beginning was on a sound basis, and the loan's success demonstrated the correct principles of finance recognized. But more immediate funds were needed for urgent disbursement and the second[10] financial legislation provided for the issue of

One Million Dollars of Treasury Notes.

These were to be one year notes, bearing $3.65 interest on $100, similar to the issue by the United States under the regime of Buchanan's Secretary of the Treasury, Howell Cobb, of Georgia, now President of the Provisional Congress.[11] They were made receivable for duties and taxes, except export duty on cotton.

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[9] This was coin kept at the New Orleans mint for the convenience of those bringing bullion; the fund had been $3,000,000 up to 1856.

[10] Act of March 9, 1861. Session I, Chapter XXXII.

[11] The absence of engravers in the South led to a contract for preparing the issue with the American Bank Note Company, of New York. There is a current tradition that these notes were seized as contraband of war by the United States Government, it

Placing of the Loan.

"A Loan for the Defense of the Confederate States," subscriptions of five million dollars of the fifteen million, was invited by Secretary Memminger the day Congress adjourned, March 16th. Leading business men took charge as commissioners of the loan, four from Louisiana, three each from six other States. The Secretary worked enthusiastically to place the investment[12], hoping at first to dispose of a million in New York. He wished to get a subscription twice the sum named[13], believing that such an expression of confidence on the part of the people must have marked influence on European diplomacy. The loan indeed went well, for in two days after the books were opened the five million dollars were taken in Savannah, New Orleans and Charleston alone, while it seemed the subscription would reach $8,000,000. The banks were largely the investors and in addition furnished their notes for the deposits on the loan and again paid them out on the Treasurer's draft. All the banks except those of New Orleans and Mobile had suspended specie payments in March. Rates of exchange already varied in the several States, and the agreement was to make all notes equivalent to specie. The payments were due by May 1st, and as the affair at Fort Sumter had brought definite hostilities with increasing war estimates, the balance of the fifteen million was called for May 7th. Prominent commercial men were invited to suggest plans. The advice[14] of James D. Denegree, president of the Citizens' Bank, of New Or-

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having learned of the shipment by the telegraphic communications. However, on April 3, the letter book "B" of the Secretary has the entry of 607 impressions of each denomination of fifty, one hundred, five hundred and one thousand dollars, being sent to the Treasurer, E. C. Elmore, and his receipt for them. The two or three specimens extant are quoted extravagantly.

[12] To G. B. Lamar, Bank of Republic, N. Y. City, March 23, 1861, Letter Book "B."

[13] To Edw. Frost, of Charleston, S. C., April 2, 1861.

[14] Letter of May 4, 1861.

leans, a frequent counselor of Mr. Memminger's, was against the reopening of the loan because the people had no money and must wait for their crops. The suggestion of this banker was an issue of $30,000,000 interest bearing Treasury notes and a direct tax payable before March 1, 1862. He particularly urged that there be "no half-way measures at this time." The loan met with a tardy response and on May 21st the balance untaken was advertised to be five million. A new appeal now included Virginia, Tennessee and North Carolina, lately come into the Confederacy, and in some States public addresses were made to induce subscriptions.

The first public expression of the

Fiscal Policy of the Government

is found in the report of the Secretary of the Treasury at the second session of Congress. More than ordinary financiering was warranted by the situation[15], indicated in estimates for the year's expenditures of $54,-129,464. The appropriations of the first session had been $17,683,370, and, now within ninety days of the formation of the nation, the provisions of the fifteen million loan, when realized, of the million treasury note issue and of the receipts of over a million dollars from customs and the bullion fund would not be fully adequate. The past expenditures had been $993,308. The deficit in view was $38,000,000. The plans[16] presented fairly foreshadowed the fiscal practice of the administration. There were four chief recommendations; a tariff of 12½%, a war tax of $15,000,000, an issue of $20,000,000 Treasury notes and a loan of $50,000,000 at home and abroad. Such a program appears comprehensive, but there were lacking esssential elements of accuracy, vigor and definiteness. The curtailment of the tariff resource by the possible success of

[15] Report of May 10, 1861.

[16] Capers's *Life of Memminger*, pp. 417-421.

the blockade was admitted, yet it was none the less confidently counted as an available asset. The arbitrary figure of $235,000,000 was assigned to the exports of the country and the value of the imports calculated to be the same, upon which a tariff of $25,000,000 was apportioned, one-half of it to be collected by February 18, 1862.

In this initial scheme, loans and direct taxes were recognized as the chief sources of reliance, yet the practical concern appeared to be to develop a resource that could bring more speedy returns to the exchequer. The Secretary stated that all the ready money of the country until the fall crops were sold would be absorbed by the fifteen million loan, and this induced him to urge on Congress the issue of Treasury notes. The application of this principal financial measure was to be a matter of experiment, ascertaining how the public regarded the notes. The Department purposed to use the issue at first to anticipate other income, but the final aim was to familiarize the people with this form of money until it had replaced every other circulating medium and become a permanent loan.

The way for the general use of the government paper was naturally prepared by making Confederate dues payable in the notes. Thus, Mr. Memminger came to advocate taxation, as a means to another financial end, rather than as the main support of his whole system. He called for the sum of $15,000,000, which was the estimated expenditure up to October 1st, and the implication was that the collections could be made within four months. In fact, the suggestion was to use the State machinery or by a discount cause the States to pay the whole quota. There was a suggestion to Congress that the tax levy might not be needed in full, nor was the placing of the $50,000,000 loan on the market urged. Other sources of revenue and readjustments through foreign aid were probabilities entertained. This hope was expressed very strongly in a

private report[17] of the Secretary to an official of Congress. The same document contains a vigorous and note-

Correct Private View of Taxation.

worthy appreciation of taxation which unfortunately was not emphasized to the same degree in a paper of state until a year later. It said "the most certain and most enduring resources must be sought out by the Government and taxes are the only sure reliance under all circumstances. Loans come from only a portion; duties reach farther, yet not all; but direct taxes pervade the whole body politic and bring forth the contributions of the willing and the unwilling." Here spoke the political economist; his practice was that of an experimenting public servant.

Bonds and Tariff.

The response of Congress to the report was the authorization[18] to issue $50,000,000 in 8% bonds, or in lieu of bonds $20,000,000 non-interest bearing Treasury notes. The bonds might be sold for specie, military stores or the proceeds of the sale of raw produce or manufactured goods. The notes were receivable for all public dues except cotton export. The desire of Mr. Memminger for 8% interest on the notes in order to have them withdrawn from circulation as an investment had been refused. The guarantees of the issue were redemption in specie within two years, convertibility into an 8% bond, provided expressly for the purpose, and a pledge of the faith of the Confederate States to raise sufficient revenue to pay the interest and redeem the stock. Congress named $10,000,000 as the necessary sum to be raised within the year by direct taxation for a fund of ultimate redemption, yet the sole evidence of a movement towards furnishing this guarantee was instructions to the Secretary to ascertain

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[17] To Howell Cobb, May 1, 1861.

[18] Act of May 16. Session II, Ch. XXIV.

the valuation of all the property in the eleven States and learn the nature of the revenue systems. A complete tariff[19] measure was passed to take effect August 31, 1861. It was a tariff of seven schedules of duties, comprising those on articles at 25%, 20%, 10% and 5%, specific duties and the free list. Compared with the U. S. tariff of 1857, its rate was 15% on woolens, cotton goods, oil, iron, coal and manufactured products, while that of the United States was 24%. Congress adjourned May 21, to meet in the new capital, Richmond, on July 21.

A New Currency.

The Treasury Department was chiefly concerned about the establishment of the system[20] of national currency and comprehensive and persistent plans to that end were laid. Upon the suggestion of Mr. Memminger, a convention[21] of bankers was held in Atlanta, Georgia, in June. The object of the meeting was expressed in the final resolution, that all banks were recommended to receive for all dues the Treasury notes soon to be issued.

The administration[22] anticipated a small requirement of coin for its purposes and pronounced gold a matter of merchandize and not a true standard of measure, unless it flowed freely. Therefore new currency had to be devised for the Confederacy. That want made imperative, according to Mr. Memminger, the introduction and wide rise of Treasury notes. He addressed[23] the banks individually, citing the action of the Atlanta convention, and arguing the advantage of a currency circulating everywhere and sustained by the united credit of the Confederacy. He

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[19] Act of May, 1861. Session II, Ch. XLIV.

[20] For the present Treasury needs and owing to difficulty in printing the notes authorized, the banks furnished the Government a temporary loan of $5,000,000 of their several note issues.

[21] G. B. Lamar, of Savannah, Ga., was president of the convention and J. S. Gibbs, of Columbia, S. C., secretary.

[22] To E. Starnes, of Augusta, Ga., May 24, 1861.

[23] Circular to banks of June 17, 1861.

assured them that the notes would be safeguarded by an early levy of a direct tax and also be fundable in 8% bonds, preventive of depreciation.

Loyalty of the Banks and Capitalists.

The banks of New Orleans and Mobile alone refused to make the new money paramount, but in August Mobile suspended specie payment and the Canal and Citizens' banks of New Orleans were[24] besought by the Secretary, and the aid of the Governor and Attorney General of Louisiana was invoked to have them accept the Treasury notes as the currency of the land. They were told that they could keep their specie in their vaults, but the good of the country demanded that they place their bank notes and those of the Confederacy on the same footing. Accordingly in September they consented to do that to which the stress of conditions would have eventually led. Their patriotism is well indicated in the statement[25] of James D. Denegree, that in a conflict between the credit of the banks and of the Government, the banks must see their own interests destroyed, but the credit of the nation must not be restricted nor the banks incur the responsibility of defeating the resolution. No authorities could ask for more unquestioning support and the loyalty of the credit organizations of the towns and cities manifested itself largely irrespective of true economic considerations.

Material Basis for Treasury Notes.

The third session of Congress, assembling in Richmond, was met with the announcement of the purpose to establish a national currency. Expressed apprehensions of danger were answered[26] by a reference to the banking capacity of the South. From 1852-8, the circulation and deposits in eight Confederate States where banks were

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[24] Letter of Sept. 11, 1861.
[25] Letter of Oct. 2, 1861, to Memminger.
[26] Special report of Memminger, July 20.

located amounted to $85,000,000, with coin of $18,500,000. There was estimated to be $200,000,000 on interest outside of the banks, whose capital aggregated $85,000,000. The Secretary reasoned that the country could easily sustain $100,000,000 of Treasury notes, especially if a large portion of them being made interest bearing should come to take the place of an investment. Their use as money was conceived to increase their value by one-half and the figure of safe absorption of notes was forthwith raised to $150,000,000. The recommendation of the report was for notes to bear two cents interest per day on the hundred dollars. The demand was urgent since the one million of March 9 had been issued and the fifteen million loan was still going slowly with a balance of five million untaken. For immediate claims one million more of the interest notes of March 9 was ordered.[27] Congress was planning larger legislation, which was guided by the statistics[28] submitted by the Treasury as a result of the inquiry[29] directed toward revenue raising in the previous session. By this showing the gross valuation of property in the eleven States, based on a previous general statement of the U. S. Treasury, was $5,202,176,109. Taking as a basis the articles taxed in most of the States, the valuation of $4,632,160,541 was given. Instead of $10,000,000 as before, now a tax of $25,000,000 was advised by means of a levy of 54 cents on the $100 of the value of slaves, real estate, merchandise, bank, railroad and other stocks and money at interest. In this scheme an *ad valorem* was preferred to a direct tax and a different basis than that of the revenue systems of the States was advocated.

The extent of appropriations and estimates warranted another appeal[30] from Mr. Memminger. $50,000,000 of

[27] Act of July 24, 1861.
[28] Report of State Auditors, July 24.
[29] Act of May 16.
[30] Special report of July 29.

the amounts voted by the First and Second Sessions remained to be met and the increase of the estimates to $100,000,000 emphasized the defects of bonds as an available resource. This was the time and place to substitute Treasury notes for the bank circulation in part; at least one-half ought to be replaced, the Secretary said, to the extent of $43,000,000. He had proposed[31] to set apart the crop subscriptions, now being taken, as additional security for the notes, declaring the value of such a basis was second to coin itself. But the banks in convention assembled in Richmond, July 24, assured him that they did not require the pledge of the proceeds of the produce subscribed. This popular movement of the planters was then used in another form for Treasury purposes and a plan[32] outlined, which was to be worked extensively at a later time, of issuing bonds in exchange for crop subscriptions.

The First Large Financial Legislation

The first large financial legislation of the war was the One Hundred Million Loan of August 19, 1861. The bonds were for twenty years, bearing 8% interest, and the shorter term bonds of May 16 were revoked in favor of the new stock. They were to be issued for funding Treasury notes, for exchange for the proceeds of the sale of raw produce and for the purchase of military stores. The notes were non-interest bearing and payable six months after peace was declared. There was a limit placed, including former issues, of $100,000,000. The loan was accompanied by the first war tax, which was expected to pay the interest on the public debt and establish a sinking fund to discharge the principal. The rate was fifty cents on $100; the assessment was set for November 1, 1861, and collections by May 1, 1862. This was a much longer

[31] Report of July 20.
[32] Act of August 19.

period than the Secretary had once[33] calculated and the realization was to extend it farther. The Department

RUNNING THE PRINTING PRESSES.

was now concerned with the printing of the Treasury notes. The banks had been supplying the currency of the Government since May, when the issue of $20,000,000 was authorized, loaning their notes at 5%.

The intention had been to pay back the loan in its own notes within three months. Contracts[34] had been made with S. Schmidt, of New Orleans,[35] but he proved most unsatisfactory and his output was very small, resulting in his dismissal in October. Meanwhile Hoyer and Ludwig, of Richmond, had been engaged on the notes, and by the latter part of August[36] were furnishing almost $2,000,000 a week. The rapid increase of output was indicative of the demand as well as of the workings of the policy of note supply. On October 1, a contract was let for $600,000 a day, and by November the daily manufacture of money was $800,000, yet the most serious difficulties had confronted the Bureau of Engraving and Printing.[37] There had not been a single bank note engraver in the South, nor was bank-note paper manufactured therein. Lithographs were used in place of steel engravings, and the first workmen came from Baltimore, as did the supplies of paper. But the Federal pickets could not always be evaded, and soon three local manufactories of paper were started. The steady increase of requisitions on the Treasury could not be met with sufficient notes from the

[33] Report of May 10, 1861.

[34] Letter to A. B. Clitherall, May 7.

[35] The mint at New Orleans had coined in April four half-dollars and then stopped for lack of bullion. On reverse were: Goddess of Liberty, 13 stars, 1861; on obverse: shield with 7 stars, a liberty cap and entwined around it stalks of sugar cane and cotton; inscribed with "Confederate States of America."

[36] Reports of Thompson Allan, clerk of Bureau.

[37] The first bonds were prepared in Charleston and New Orleans.

presses, so that by October 24, $12,000,000 of claims were unpaid, and a second resort was had to the banks of South Carolina and Georgia for a loan of ten millions of their notes.

By the time of the installation of the permanent constitution in February, 1862, this defect had been remedied and Treasury notes held the field alone.

Sublime Faith in Paper Money.

The dominance of the Government credit instruments was hastened by the action of the fifth and last session of the Provisional Congress, which met November 18. Appropriations[38] had reached $124,301,038, although the estimates of six months earlier were $71,812,834. Expenditures had been $70,666,715, while receipts were $61,870,216 of which $18,000,000 was from loans. Up to this date, $32,000,000 in notes had been issued and the Secretary asked[39] for authority to issue $50,000,000 in excess of the $100,000,000 of the Act of August 19. But, when additional estimates for $99,000,000 were submitted on December 10, he demanded[40] $100,000,000, boldly asserting that the scheme of finance adopted by Congress looked to Treasury notes as the supply of means for public expenditures. He proposed no measures looking beyond April 1, 1862, and expressed faith in the attempted blockade being set aside and the present embarrassments relieved. The attitude of Mr. Memminger is revealed in a communication[41] to G. A. Trenholm, of Charleston, who became his successor in the final year of the Confederacy. He said, "our Treasury cannot be guided by experience, since history furnishes no parallel of circumstances. It must feel its way." His November report showed a realization of the perils of redundancy and sounded that helpless warning which was the characteristic feature of sub-

[38] Capers's *Life of Memminger*, pp. 422-428.
[39] Report of Nov. 20, 1861.
[40] To Howell Cobb, Dec. 10, 1861.
[41] Letter of Feb. 17, 1862, Letter Book "C."

sequent official utterances. Congress began in this last session its oft repeated practice of raising the limit,[42] voting $50,000,000 additional notes.

The Delusion of Funding.

Among the measures adopted to sustain the value of the notes, funding was judged an absolute specific from the very start, nor was this delusion lost under changed conditions and unfavorable experiences. The $20,000,000 notes of the Act of May 16 could be funded in ten year bonds, bearing 8% interest which were re-exchangeable for notes. This was an experiment and the banks were largely induced to fund accordingly. The $100,000,000 note issue of the Act of August 19 was fundable in 8% bonds, running from three to eighteen years, excepting $20,000,000, which could be exchanged for ten-year bonds of 7% interest, reconvertible in notes. The demand for this 7% security was so strong, exhausting the amount, that in the November Congress, the Department asked permission to lower the interest further, and a new device[43] took the place of the bond, a 6% call certificate. The amount of these was to be $30,000,000 and their operation was to convert the depositories into savings banks, where Treasury notes were deposited and drew 6% interest, until they were again brought out into the circulation. In addressing[44] President Davis, the Secretary stated that the time for the payment of these bonds was not material as their exchange for currency would likely be required before the time fixed for payment, and thus be a class of bonds outside the general funded debt. Twenty years was fixed. While the purpose avowed for these certificates was the absorption of notes, yet at best it could furnish only a temporary check on redundancy, since there was to be a return sooner or later into notes.

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[42] Act of Dec. 24, 1861.
[43] Act of Dec. 24. Session V, Chapter XXVI.
[44] Letter of Jan. 7, 1862.

Strengthening Public Credit.

Another measure that had given credit to the Government paper was its acceptance[45] for all public dues except the export duty on cotton, which was reserved to sustain the fifteen million loan. It was particularly enjoined that the war tax[46] should be paid in Treasury currency. The proposition to make the notes a legal tender, which was to be a contention in vain for four years, was early discussed. In its third session Congress[47] had referred the matter to its finance committee on the motion of A. H. Garland, of Arkansas; and two weeks later on the motion of James A. Seddon, of Virginia to make Treasury notes receivable in payment of any debt due corporations or individuals, the vote was adverse.

A third plan to strengthen the credit of the Government was devised out of the liberty allowed Mr. Memminger to decide how he should pay the interest on the funded debt. He announced on December 19 that coin would be used, expecting thereby to increase the desire to fund notes into bonds. He asked[48] a loan of $1,000,000 from the New Orleans banks for this purpose. Although James D. Denegree arranged to get the amount for him by January 16, 1862, it was done with a sharp protest[49] against the method of financiering. The banker contended that the coin received by bond holders would be put on the market and go from the country. He said that such a policy of payment could not be maintained over six months unless the blockade was lifted. Then a resort to the payment of interest in notes would make a worse condition than the one sought to be avoided. The prediction was confirmed and specie gathered later went for supplies to preserve national existence.

[45] Acts of March 9, May 16, August 19, 1861.
[46] Act of August 19.
[47] July 19.
[48] Letter of Dec. 4, 1861.
[49] Letter of Jan. 16, 1862.

The legislative and financial policy of the Provisional Congress employed bonds and stocks mainly for the support of the Treasury notes. The initial fifteen million loan was not completed[50] until October, the banks being pressed into subscribing the balance. A very small portion[51] of the one hundred million loan was placed within the year. The safety fund provision attached to the bonds promised an inviting guarantee. This divided the principal into thirty-six installments, beginning January 1, 1864, and a fixed sum was to be appropriated to pay semi-annually the whole interest, together with the portion of the principal. Though this stock had not been sold directly to the public, it was hoped that it would be largely available through the agency of the produce loan.

Crops as a Financial Basis.

The subscription of crops was a natural device for an agricultural people, especially during the season when there was little ready money. The second session of Congress had looked towards this resource when it[52] provided bonds to be sold for the proceeds of the sale of raw produce and of manufactured goods. Treasury circulars of June 18 and 26 emphasized this use of bonds and called for subscriptions. This notice was directed to reach the growing crop of cotton and a response of 500,000 bales was estimated. By August several sections began to make liberal returns, the planters offering one-third to one-half their yield. In other places, no support was given and agents of the Treasury were sent to address the people on the loan. Various conventions gave enthusiastic approval. James E. B. DeBow[53] was made clerk of the Produce Loan Bureau, and in the November report[54] to

[50] Circular of Oct. 10, 1861.
[51] Letter to E. Stearns, Nov. 20.
[52] Act of May 16.
[53] August 3, 1861.
[54] Capers's *Memminger*, p. 425.

Congress the subscriptions when paid were conjectured to reach likely $40,000,000. The patriotism of this official had led him to the work gratuitously, but on January 20, 1862, he turned over the office to a salaried chief clerk, A. Roane. At that time the subscriptions were approximately placed at 418,000 bales of cotton, 7,000 hogsheads of tobacco, 3,500 hogsheads of sugar, 3,500 barrels of molasses and $500,000 cash. But there had been no proceeds realized by the bureau and sales depended upon the opening of the markets, which was confidently expected through the lifting of the blockade within the year. While the organization for subscription had been fairly effective, the system for collection required more detail and was planned under the direction of the register's office, of which the bureau remained a division until 1863. General agents were located in the larger cities where subscriptions were payable and their subordinates were scattered through the adjoining territory to solicit signing of additional produce and attend to the collection. The practice was for the planter to indicate the portion to be given, name the place and time of delivery and allow his factor to pay the proceeds to the agent, getting in turn a receipt for the 8% bonds.

Government Loan on Cotton.

As nineteen-twentieths of the products offered was cotton, this gave force to the sentiment in favor of Government control of this resource. A common theory[55] of subsequent years has been that the failure to seize the cotton made the fatal economic error of the first year of the war; even in the second year certain newspapers urged purchase by the Confederacy. But the early advocates of a Government loan on cotton were of two classes, those who favored it as a basis of the financial system and the planters who wanted aid for themselves privately. The earliest advocate of the first plan was C. T. Lowndes, of

[55] Joseph E. Johnston's *Military Operations;* Pollard's *Lost Cause.*

Charleston, who urged[56] securing the staple by an advance of five cents a pound and issuing notes on it as a real source of value. The cotton was to be kept with the Government loan on it until the close of the war, when the advance would be refunded. Lowndes placed this plan above the produce loan notion of that date, which could yield no money until after the blockade unless there was a forced sale. The Secretary promptly[57] opposed government purchase. His argument was that the circulation just established would be ruined by the amount of notes needed to buy cotton. Notes paid for a pledge of cotton must be an exchange of cash for a lien, and when the cotton was sold, the Government had its notes back and was where it started. He judged there was no advantage in the control of cotton since notes were deemed adequate for all demands. Again,[58] he said, the notes were already currency by the banks' action and required no exchange for cotton to sustain them.

The second class, which wanted advances on their staple to promote commercial activity, was a very large one, and in a communication[59] to General W. W. Hardie, of Manor, S. C., Mr. Memminger seemed to incline toward it. Shortly, though, he took a decided stand against this plan,[60] asserting that the sooner planters learned to rely on themselves, and not the Government, the quicker their relief. The true remedy was to divert labor and capital to raising supplies and furnishing food, and such advances as were necessary could be obtained from private sources. The New Orleans mentor[61] had spoken against the scheme of public advances saying that was the function of banks or States. A Treasury circular[62] was

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[56] Letter of June 13, 1861.

[57] Letter of June 20.

[58] To W. C. Bibb, of Montgomery, Ala., June 21.

[59] Letter of July 9, Letter Book "C."

[60] To R. D. Powell, of Columbus, Miss., Oct. 9, 1861.

[61] Letter of Denegree, Oct. 2.

[62] Oct. 15; published in Capers's *Memminger*, pp. 352-5.

finally sent to the commissioners of the produce loan, which announced the decision that such material aid as Government purchase was unconstitutional, power existing only for borrowing and not lending. The one to two hundred million of notes proposed for the advance must disarrange all contracts and prices, making the Government the largest loser. The history of all such public undertakings was said to advise against the course.

Cotton Through the Blockade.

A subsequent use made of cotton by the Confederacy was to purchase it for shipment through the blockade to furnish specie in Europe for absolutely essential war supplies. This practice began as soon as specie was hoarded and rates of exchange increased. John Frazer, of Charleston, was directed, November 20, 1861, to buy cotton and ship by the "Fingal" to Liverpool. In response to an inquiry of Congress, February 12, 1862, as to this purchase, it was learned that after the "Fingal"[63] was loaded, it was so effectually blockaded at Savannah, that the cotton was returned to the interior. Movements[64] were made looking to the purchase of cotton in Texas and shipment to Mexico because of this failure in the East. Afterwards, large operations were begun under the plan established by the First Permanent Congress.

Summary of the First Year.

The change from the provisional constitution to the permanent on February 18, 1862, was accompanied by the assembling of a new congress of two branches instead of one, but the administrative personnel of the Government was not altered. President Davis in his message[65] said that the financial system of the first year had proven adequate to supply all wants, although there had been a

[63] Afterwards was converted into ironclad Atlanta.
[64] Letter to Secretary of War Benjamin, Nov. 23, 1861.
[65] February 18, 1862.

vast increase of expense for defense. He found much gratification in an unimpaired credit and the absence of a floating debt. Yet such a flattering condition was possible only because this was the year of the organization of the Confederate finances. The issue of Treasury notes was bordering on $125,000,000, with the limit of $150,000,000, set by Congress, not far away. The notes had displaced the circulation of the banks, which on January 1, 1859, aggregated only $60,000,000, the total notes, deposits and coin reserve in the South having been $100,000,000. Mr. Memminger's estimate in July had been that the country could safely float $150,000,000 of notes, and to that extent the financial policy thus far pursued may be considered a positive gain. But the conduct of the Department in the past year did not presage favorably for the maintenance of the bounds appointed to the paper issue. Depreciation began to show itself quite plainly. In the early months, the paper money was at actual par with gold; in August it was at 8% discount, at 15% in November, and 25% in February. The receipts from loans were less than $40,000,000. The tariff law of May 21st, which had been carefully framed and was calculated to bring in a revenue of $12,500,000, was practically inoperative on account of the blockade. The receipts[66] of duties from July 1st to December 31st amounted to $63,138, while the expenses of the custom houses for the same period was $63,774. The total customs of the year were $1,270,875, of which $742,475 came in within two months after the formation of the Confederacy. The war tax was not yet collectible and notes and bonds had furnished 98 1-3% of the total receipts. The estimates for this year had been $72,000,000, but the expenditures had proven to be $165,000,000. The certainty of a steady increase of demands with a protracted war and a continued blockade faced Congress and the Treasury Department.

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[66] Report of Jan. 13, 1862, Treasury Book "C."

CHAPTER II—OVER-ISSUE.

The Secretary of the Treasury[67] formulated for the new Congress after it had been in session almost a month a financial program that was mainly an enlarged application of his previously established policy. The expenditures were estimated for the next nine months at $215,000,000. Authority was asked to increase the issue of notes by $50,000,000, newly fixing a limit of $200,000,000. The report recognized such issues as the most dangerous of all methods of raising money and accurately described the deplorable possibilities which in less than two years were made real. Although a currency having value only in its own country is peculiarly liable to lose its security against excess, every addition becoming permanent circulation, the confidence of the administration was not shaken in the efficacy of 8% bonds and call deposits to keep down redundancy. However, it was plain that the credit of the notes would be completely shattered if they were used for all expenditures.

A leading recommendation then was that supplies largely be procured in exchange for bonds. Loans were not being placed directly with the public to any extent, and both for investment and for payment on produce Congress was shown there must be the certainty of provision for the interest. If loans were to be enlarged, the

Small and Inefficient Tax.

taxes must be enlarged. The next recommendation then was an increase of the present moderate tax rate of a half-cent on the dollar, yet there was not that insistence upon such a measure which the occasion warranted. A possibly difficulty had now arisen in the fact that the permanent constitution[68] had a different clause on the tax-

[67] Report of March 14, 1862, Capers's *Memminger*, pp. 429-437.
[68] Art. I, Sect. II, Par. 3.

ing power from that of the provisional constitution,[69] whose only requirement was that the taxes should be uniform. The new provision was similar to the one prevailing in the United States Constitution, that direct taxes and representation shall be levied according to population. This difference could be met, the Secretary suggested, by assuming the assessments already made under the war tax of August, 1861, as a basis for the distribution of the proposed increased tax, as soon as Congress decided what aggregate amount must be raised.

The preparations for laying the war tax and the machinery for its collection were arranged with a hesitation and lack of dispatch that marked a people not accustomed to general government revenues. The auditors of the several States had been asked May 21, 1861, to report the value of their property to the Confederate States Treasury. Two months later the results[70] were laid before Congress. Of the total valuation of $4,632,160,500, real estate and negroes were respectively $1,758,238,000, and $2,142,635,000 constituting 85%. There had been no revenue system of the States. Taxes on slaves were both by poll and *ad valorem*. The assessment was adopted[71] of $600 each on the three million and a half blacks. There had been no returns of land in South Carolina since 1840, so the listed property was assigned an increase in value of 75%. The *ad valorem* tax was employed instead of the direct, since it lightened the burden upon States less able or willing to bear it. If the proposition had been levied according to representation, the quotas of the richer States of Louisiana, Georgia and South Carolina would have been less than under the *ad valorem* by more than half a million dollars each. The levy[72] of 50 cents on $100,

[69] Art. I, Sect. VI, Par. 1.

[70] Report of July 24, 1861, Treasury MMS.

[71] Instructions of Sept. 24, 1861.

[72] $500 worth of property was exempt in each family; also the property of educational, religious and charitable institutions.

passed August 19th, was estimated to produce $21,000,000.

Delays in Collection.

Assessments were to be made as early as November 1st, and collections were due May 1, 1862. When the measures looking towards a valuation of Confederate property were taken, Congress passed a provision, four months before the tax act was voted upon, that the several States might anticipate the payment of the tax and assume[73] their quotas, receiving a rebate of 10%.

The chief collectors[74] of the war tax, one for each State were appointed September 24th, and the States were divided into districts with subordinate collectors at their head, who in turn appointed district assessors. But the selection of all these officers was a work that required time. Some of the chief appointees could not be promptly reached. Certain States, as Texas and Florida, had laws forbidding their State collectors to serve the national system. The majority of the assessors could not begin their duties until 1862, and extensions of time were being constantly granted in addition to the supplementary act of Congress of December 19, 1861, which fixed February 1st as the limit. Alabama through the unfortunate selection of a chief collector had no assessment made when collections were due.

Georgia made the best record,[75] reporting its assess-

There were seven schedules on which the levy was placed: real estate, slaves, merchandise, bank and corporate stock, money at interest or in securities other than Confederate bonds, cash on hand, cattle and household goods. Under household goods the objects taxed were gold watches, gold and silver plate, pianos and pleasure carriages.

[73] This was an American practice, having been used in the tax bill of the War of 1812, and also in the Federal direct tax of 1861.

[74] The chief collectors were: H. T. Garnett, Virginia; E. Stearnes, Georgia; R. M. Lusher, Louisiana; W. K. Lane, North Carolina; J. D. Pope, South Carolina; A. Martin, Alabama; E. E. Blackburn, Florida; John Handy, Mississippi; G. J. Durham, Texas; J G. M. Ramsey, Tennessee, and W. H. Halliburton, Arkansas.

[75] Letter to E. Stearnes, collector

ments fairly promptly. The State Legislatures were exceedingly slow in acting on the assumption of the tax, and the period was extended from November to January and then to February, 1862. Congress had to offer final encouragement, April 22d, to enable some of the States to assume their quotas, the call certificates being taken by South Carolina for that purpose. The collectors were notified[76] to hold themselves in readiness to begin work, for even after many of the Legislatures had voted to take up the quota, there was much delay in attending to the payment. Accordingly when May, the appointed time for the receipts, had come there were few returns made, but Mr. Memminger was expecting large relief for the Treasury speedily.[77]

In August one-half the contemplated returns, $10,000,000, was announced.[78] All the States but Mississippi and Texas had assumed the tax. Thompson Allan, chief of the War Tax Bureau, submitted his report January 6, 1863, showing the receipts to be then $16,664,573. The rebate to the States had reduced the original levy $1,700,000. Tennessee fell short $1,000,000 by the occupancy of its territory, and other States had various deficits. Congress had allowed 10% in case of State responsibility for the tax, presumably to cover the expense of collection, yet in Mississippi, where collected by the Confederate Treasury, the actual cost[79] had been 2%. The several Legislatures had issued their own notes to pay the assessments or borrowed on their bonds, so instead of a real taxation, this operation resulted in swelling the general indebtedness of the country.

Accordingly with such manifestation of the sentiment against direct taxation, the first session of Congress, February 18th to April 21st, did nothing to increase the al-

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[76] April 2, 1862.
[77] To G. W. Randolph, Secretary of War, May 5th.
[78] Report of Memminger, Aug. 21st.
[79] War Tax Report.

ready small and inefficient tax. Yet much time was spent in discussion of the adoption of a legal tender clause, the question starting on February 25th, the date of the passage of the Federal legal tender act. A majority of neither the House nor the Senate received the suggestions favorably and the Secretary gave expression[80] to L. J. Gartrell, chairman of the Judiciary Committee, of the fixed hostile policy of the administration to the plan. His argument was that the notes needed no aid to enable them to perform the functions of a legal tender, and if force were used suspicion would be aroused and credit affected. He further urged that such a law would not prevent depreciation, while the experience of all nations attested to the utter failure of forcing notes at a penalty.

Currency Act of April, 1862.

The currency bill[81] added the $50,000,000 notes asked for and a reserve of $10,000,000, to be kept for issuance to holders of the deposit certificates upon any sudden call. Besides, $5,000,000 in denominations of ones and twos were ordered. All notes of former issues were of larger denomination and it was thought this inconvenience increased the depreciation. The full recommendation of bonds, $165,000,000, was voted, but without the accompanying additional guarantee of interest through adequate taxation. These bonds were for a yet larger period, 30 years, with right to be redeemed within 10 years. In the sum total voted, there were the various forms of substitutes, brought into use during the year past. The call certificates at 6% interest were allotted $50,000,000 of the issue. In December this class of absorbents had been fixed at $30,000,000. The increased demand for them was another sign of the depreciation of the notes.

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[80] Letter of March 13, 1862.

[81] Act of April 12, 1862, Statute I, Chapter XXVII.

Bonds Refused, Notes Taken.

A large share of the bonds was intended to be exchanged for supplies and subsistence. It was expected to give an opportunity for investment to people who had no surplus capital in money. From the first the railroads had taken a portion of their pay for government transportation in bonds. The same bargain was to be struck with the farmer for his produce and the manufacturer for his clothing. This was an extension of the spirit of the produce loan, for the act of one of the parties to the trade was yet left voluntary. If the public responded, that mounting tide of notes could be stayed.

The purpose of the Department was to keep the notes for the pay of the army, for the wages of mechanics and such expenditures not able to be met by bonds. But it was difficult[82] to get the War and Navy Departments to coöperate in the new plan of payment. Previously, it had been urged that requisitions be satisfied one-half in cash and one-half in bonds. Now when the law[83] was tried, the disbursing officers reported that the owners of supplies would not part with them except for notes. Friction between the Departments arose and the Secretary was thought to be unfavorably discriminating when he paid in bonds.

In an appeal to President Davis on April 9th, Mr. Memminger wrote that if the whole expense of the Government was paid in notes, the $50,000,000 provided would be exhausted in sixty days and the Confederacy brought to a stand. The $181,000,000 of bonds was an asset which no power or skill that he knew could convert into cash. Still further harrassed, the Secretary[84] asserted that he

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[82] Letter to Secretary Randolph, March 27, 1862.

[83] The requisitions of the War and Navy Departments were much in advance of the means of the Treasury to pay, and Mr. Memminger asked that note issues be reserved for the soldiers, and creditors generally be tendered the bonds.

[84] To Col. Northrop, May 10, 1862, Letter Book "C."

had not suggested the law of payment by bonds, but the blame for it belonged to Congress. It was known that New Orleans refused to take the bonds, as also in the past it had made little use of the call certificates for funding. Wherever the sections were threatened by the enemy, the people would accept nothing but notes in their dealing with the Confederacy. By June the situation was critical, only a few million dollars of notes remaining unissued of the prescribed $200,000,000. The bond measure of Congress being a failure, the next device of the Treasury was foreshadowed in a communication[85] to the President. The Secretary insisted that in the event of the calls for notes exceeding the amount for which legislative authority had been given, the Executive must meet the emergency unless interest-bearing notes could be substituted for the many millions of bonds, which had few takers. In the recent currency bill it had been provided that one hundred dollar notes, bearing an interest of two cents a day, commonly known as seven-thirty notes, might be issued for the purpose of having notes of smaller denomination exchanged for them, while the interest-bearing notes at the same time would be kept out of circulation for the sake of the investment. By addressing[86] the banks on this new form of note, which had been frequently[87] advocated by Mr. Memminger, a considerable demand was established, and within two months $23,000,000[88] were used. The original bill contained no provisions for the time and means of paying the interest on this form of credit, so that the following session of Congress[89] designated the use of non-interest notes annually for the purpose.

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[85] Special report of June 7th.
[86] To Savannah and Charleston banks.
[87] Reports of May 10, July 20, 1861.
[88] Report of Aug. 21, 1862.
[89] Act of Sept. 23, 1862.

Final Reliance on Paper.

The second session of the First Congress placed the final seal of approval on the program of printing government paper in response to every claim of its creditors. It first granted[90] an additional $50,000,000 of the ordinary circulation, then threw aside the limit of $250,000,000 by authorizing notes to be put forth in such amounts as were needed to meet appropriations. In the Treasury report there seemed satisfaction in the workings of the financial measures. Excessive note issue was held up as a disastrous evil, but no immediate danger was sounded. Nevertheless, for six months notes had continued the chief resource, $115,000,000 being used. Bonds available for the conversion of notes and for the payment of supplies aggregated $25,000,000. This stock having been placed on sale with the depositories, found little demand. The call certificates for deposits of notes at 6% was more acceptable to the public, and since the passage of the act in December, 1861, $37,585,200 had been taken. The President in his message of August 19th favored giving the people what they wanted, notes and not bonds, saying that the accumulated debt was insignificant compared with the magnitude of the war. However sanguine the expressions of the authorities, the small amount of bonds used for funding, thereby possibly carrying off the money stream that was being bid flow so freely, required some remedial action. The seven-thirty note was designed[91] to combine the features of funding and currency. The interest was expected to cause it to be hoarded. The Department hoped to attract $70,000,000 said to be in the hands of private capitalists. But the interest-bearing notes came to be used for current expenses along with the non-interest notes. Thus the second device in credit instruments of the year failed to attain the purpose for

[90] Act. of Sept. 23, 1862.

[91] Report of Aug. 21, 1862.

which it was put forth, and the fancied barriers to overissue were proven insufficient.

Secretary's Alarm and Reason for It.

The Secretary now evinced[92] the first serious alarm. He acknowledged the unfavorable turn of the experiment which he had planned[93] six months earlier, that "after the issue of notes had been raised to $200,000,000, there should be a pause in this direction, until we can see the effects on the country."

At the same period he had written[94] to Jas. D. Denegree, of New Orleans, "I have endeavored to restrain the issue of Treasury notes, so as not to have a currency of assignats." But familiarity with French financial history had not brought the Secretary through safely, and his warning to Congress was that there are indications of various kinds that some support of the currency will soon be required. The new appropriations for the last quarter of the year reached $150,000,000. To meet these the government printing presses contributed a monthly increase of $40,000,000 of notes. The estimate on September 30th was that the total circulation outstanding by January 1, 1863, would be $433,000,000. The report[95] afterwards made the actual amount $410,000,000, the general currency being $290,000,000. To the extent of $120,000,000 were the seven-thirty notes used for current purposes, being issued in practically equal sums with ordinary notes in the last half year. In ten months there had been a more than three-fold increase of Treasury paper over the amount of the provisional year of the Confederacy; while in the first year there had not been an adequate conception of the size of the war; neither in the plans for the second year were the provisions of the necessary propor-

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[92] To A. H. Stephens, Oct. 3d.

[93] Report of March 14, 1862.

[94] Letter of April 1st.

[95] Jan. 10, 1863.

tions. The estimates were submitted for an aggregate of $298,000,000 by December 1st; the expenditures on December 31, 1862, had reached $417,000,000, and there were $81,879,913 undrawn appropriations, making a total of $498,851,648.

In the face of such demands government paper gave the easiest answer. The administration cannot be charged with ignorance of the results of such a policy, yet it championed no comprehensive financial system. The economic axiom that it is far more difficult to recover a failing currency than to sustain a sound one brought with its utterance[96] no adequate solution of the growing perplexity.

Three-fold Over-issue and Prices.

As the issue of notes was three-fold larger than the South needed for its business transactions, by that degree were prices being theoretically enhanced. The response was not so immediate, and impaired transportation caused great variations in localities. In December, 1862, wheat in Richmond was selling at four dollars, corn at three dollars, and oats at two dollars per bushel, and flour at from $20 to $25 per barrel. Gold had risen from $1.70 in March to $3.00. The steady rise of general prices had well entered on its ruinous course.

Printing and Counterfeiting.

In view of the financial methods of this period the preparation of notes and bonds was a most important department of the Treasury. Contracts with the Richmond firms of Hoyer & Ludwig, and Keatinge & Ball, furnished the material, and the registry and signing were done by the government. In May, 1862, when McClellan waged the James River campaign, for safety the issue division was removed to Columbia, South Carolina. The delay of two weeks and more caused an accumulation of unpaid requisitions, already largely on the increase, and there was serious embarrassment of the Treasury for a con-

[96] Report of Oct. 3, 1862.

siderable period. At the same time the method of signing the notes increased the difficulties, although a large force of ladies and men was employed. The Secretary asked Congress in vain to allow the signatures to be engraved. The creation of a distinct bureau was advised in 1862, but not until May 1, 1863, was the act passed establishing the Treasury Note Bureau, and S. G. Jamison became chief, directing from Richmond. The plant at Columbia[97] was operated to the end, but as necessities increased, lithographers and other skilled workmen were imported from England.

The character of the note was susceptible to counterfeiting, and in August, 1862, an epidemic of false money was thought to threaten the South. Certain plates were stolen from Hoyer & Ludwig, and the spurious issue was started in the West. There was a popular[98] belief that firms in the North[99] were engaged in introducing counterfeits. Much indignation was aroused, and President Davis gave official expression of it in a message. The most vigilant measures were taken by the Department and severe penalties enacted. One counterfeiter of Richmond was hanged. During 1863 unsigned notes were stolen from Columbia and sporadic cases of counterfeiting came to light. Yet it is scarcely probable that sufficient false notes were uttered to affect the depreciation of the true. The best evidence was the amounts received at the depositories. The proportion was quite small, an extreme[100] case being at Charleston, where out of $2,-000,000 the aggregate counterfeits was $2,340. Agents

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[97] C. F. Henckle was made chief clerk on June 3, 1862, and oversaw the contract of Evans & Cogswell.

[98] Letter to P. C. Clayton, Asst. Sec'y. Sept. 1, 1862.

[99] S. G. Uphem, 403 Chestnut St., Phila., advertised $20 Confederate bonds and 15 different fac-similes of bonds and notes of 1862 issue.

[100] Return of Nov. 5, 1862.

were not allowed to suffer for their receipt of bad money. The currency of the land was no longer sound in 1862, and in the first uncertainty of diagnosing the causes of impairment, minor disturbing elements were likely to assume undue importance.

CHAPTER III.—REMEDIES.

In the second year of the Confederacy the tendency of the financial policy was variously interpreted. The practice of the Administration was to make cheerful reports on the condition of the public credit. The press was in the main conservative and loyal and not disposed as yet to judge harshly the Treasury methods, excepting the utterances[101] of the Richmond *Examiner*. There was a popular notion of vast resources in the South, and none but the ignorant or timid dared question whether its debts could be paid, however enlarged. But the proposition in Congress of a high rate of taxation brought forth very divergent opinions on the economic measures feasible and adequate. A bill was reported September 23 by Mr. Kenner, of Louisiana, chairman of the Ways and Means

Forced Loan Rejected.

Committee, which provided for the levy of a uniform income tax of 20%. This was to be assessed on January 1, 1863, on the gross products of the year 1862. All sources of income were liable except bonds and Treasury notes. The minimum exemption of total products and income was $500. In return for paying this tax, the collectors were to give bonds of the Treasury, called "Income Tax Bonds," bearing 6% interest and the principal payable from 10 to 30 years.

This plan was thus a forced loan under the name of a tax. The line of support of the bill by Mr. Kenner gave the type of the new resolute policy that would have repaired earlier mistakes. His argument[102] was that things

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[101] Apr. 4, Apr. 11, Sept. 16, 1862, etc.

[102] Richmond *Sentinel*, *Examiner*, Sept. 23, 1862.

had been going smoothly, but now the time had come for vigorous action. With one slight exception the credit of the South had been based on its future resources. The printing presses could no longer carry on the war, but well defined revenues must be created to sustain the government. It was not the business of Congress to lighten the burdens of the people, but to devise measures that will meet the heavy expenses of the present. Mr. Kenner paid a high tribute to the confidence of the people in the notes when he said they would receive them until it took a barrel of notes to buy a barrel of flour, while meantime inevitable financial law was working the nation's irretrievable ruin. There was hesitation on the part of many members to admit the serious depreciation of the currency and sums ranging from $300,000,000 to $400,000,000 were thought by some to be not excessive for the circulation.

The opposition to the tax measure was many-sided and determined. Those who were working for a legal tender law did not favor the system. The charge of unconstitutionality was urged by Mr. Boyce, of South Carolina, and Mr. Bridgers, of North Carolina, on the ground of its being a forced loan. Other representatives denied that the measure was expedient or necessary. Mr. Bruce, of Kentucky, took the position that no tax could be relied upon to pay the interest on the debt, which required for its successive levies the action of future Congresses. It was also declared that the proposed revenue could not be applied to aid the currency. While some hailed the plan as a satisfactory relief from possible impressment of military supplies, yet the more general sentiment prevailed that the country was not ready for such a measure. The scheme was thought to have been arranged hastily and to have not included all revenues. Mr. Chambers, of Mississippi, voiced the attitude of the House in his statement that since the money could not be collected until April there was no injury from waiting, and the House was not

then prepared to perfect a plan of taxation. Accordingly, in the face of the protests of Mr. Perkins, of Louisiana, that they had passed appropriations increasing the expenses for one month by $80,000,000, the measure of relief was postponed[103] on October 9th to the next session by a vote of 36 to 28.

Legal Tender Unconstitutional.

The legal tender measure fared no better than in previous sessions. Mr. Foote, of Tennessee, by his advocacy of it established his career as the notorious opponent of the Administration. A motion to make the bill, introduced by Mr. Gartell August 18th, a special order, was defeated by a vote of 54 to 28.

The Judiciary would not report favorably then nor at the third session in January, 1863, when Mr. Swan, of Tennessee, offered a bill to grant an issue of $250,000,000 notes receivable for all debts. The amount of circulation had reached such proportions that a legal tender act would have either created two currencies or had an *ex post facto* application. The view of the unconstitutionality of such legislation continued to extend more widely, until a year later, when under new currency plans the proposition being again made, there were very few supporters.

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[103] The motion of Mr. Jones, of Tennessee, was that it is the duty of Congress to pass a bill at its present session to raise revenue by taxation and that the resolution for adjournment on Monday, Oct. 13, be rescinded. The vote was—yeas, Ashe. Baldwin, Barksdale, Bonham, Boyce, Bridgers, Currin, Elliott, Farrow, Foote, Goode, Graham, Gray, Harris, Hartridge, Hilton, Holcombe, Holt, Jones, Kenner, Lyons, McRae, Menees, Miles, Perkins, Russell, Sexton and Swan—28. Nays—Atkins, Batson, Bell, Boteler, Chambers, Chilton, Clapp, Clark, Clopton, Collier, Dargan, Dupre, Foster, Freeman, Gardenhier, Garland, Garnett, Gartrell, Hanly, Heiskell, Herbert, Johnson, Kenan of Ga., Kenan of N. C., Lauder, McDowell, McQueen, Pugh, Ralls, Royston, Smith of Ala., Smith of N. C., Trippe, Wilcox, Wright of Texas, and Wright of Tenn.—36.

Fatal Inaction of Congress.

Congress did not escape condemnation for its failure to pass a proper tax law. The Richmond *Whig* of October, 1862, said: "The country will not accept its leaving important public questions to settle themselves as duty done. All know that the currency question imperiously demands some sort of decision." The condition of the currency received increasing public attention and the demand for heavy taxation to secure the bonds which would relieve the inflation came to be a national propaganda. But the evil was wrought in the postponement of that which had been almost fatally delayed, and scores of millions of notes were to be added monthly before measures for relieving economic mistakes would be enacted. The inaction of Congress in October was an added blow to credit, reflected by the increase of speculation and the desire to get rid of the notes in all forms of investments. Manufacturers were charged with unwarranted advance of prices and extortion was not confined to place or party.

The Produce Loan.

Although increased receipts from taxes were denied, the Treasury worked diligently to render available other resources than notes. The bonds had found comparatively few direct purchasers, for they were allowed to be sold only above par. After July, 1862, they were not thrown open to general bids. The funding[104] of notes and exchange for produce did not exhaust during this year the one hundred million loan of August 19, 1861, and the bonds of the new loan of April 12, 1862, were not even issued. However, foreign markets now offered an inviting prospect for the sale of special cotton bonds. This opportunity arose out of changes in the Produce Loan. The large subscription list of 1861 had not silenced objection

[104] Report of Jan. 10, 1863.

to this project. The collections, being at the discretion of the planters, continued to be delayed, since the blockading of the ports hindered the marketing of the produce. The sentiment in favor of government control of cotton opposed the double plan of exchange which put products into notes and these proceeds in bonds. The Richmond *Examiner*[105] said the Produce Loan was a sham and a delusion, but if all the cotton was delivered to the government and formed the basis of a *bona fide* loan of money value, it would be more desirable than gold or silver, and more valuable after the blockade.

The First Congress favored a new adjustment and passed a law on April 21, 1862, allowing the products to be sold direct to the Treasury for 8% bonds, $35,000,000 being appropriated for the purpose. The produce loan continued to receive cotton and tobacco by subscription, but this act gave much wider power to the Secretary for the control of the staples. It looked to a possibly larger use of bonds than had been gained up to this time by the produce subscriptions. This legislation was not radical enough for those who advocated government purchase, nor could the amount to be secured warrant the statement that the cotton of the country created an actual guarantee of all the Treasury notes issued. Yet the arguments for entire ownership continued to be advanced intermittingly in the newspapers.

The Scheme Not Successful.

In his report of October 2, 1862, Mr. Memminger admitted the failure of the Produce Loan as a means of converting currency into bonds. Nor as a collecting agency was it bringing satisfactory results, though an order had been issued under the new act that the subscribers at once discharge their obligations and allow exchange for bonds.

[105] Apr. 11, 1862.

The report of the chief clerk on January 9, 1863, gave the first accurate gauge of the usefulness of the Bureau The returns for 1861-2 were 431,347 bales of cotton, worth $21,567,350, at $50 to the bale; other products worth $895,180, cash $608,375, a total of $23,070,905. Of this amount only $2,000,000 had been added in 1862, as the result of the solicitations directed. The agency had not been effective in drawing the support of the people during the second year of the war, and had made only fair progress in realizing on the early pledges, whose payment was no longer optional. The collections amounted to $7,633,044, less than one-third of the total, at an expense of one-third of one per cent.

The next report of Mr. Roane, the chief clerk, on November 30, 1863, placed the value of the old subscriptions at $28,070,905, an increase of $5,000,000 being allowed for the appreciation of cotton. Of this amount now $14,940,950 was collected and new subscriptions had been secured to the sum of $16,956,000.[106] The final report of the Produce Loan on November 10, 1864, showed that $11,173,095 of the original list could not be collected on account of lost property and withdrawal of the 8% bonds. This was a shrinkage of 40% of contributions pledged under the more favorable conditions. The additional returns of 1863-4 were $17,579,400, raising the total receipts to $34,476,400, secured during the war by this agency of the Treasury. The Bureau, however, from May, 1863, had two other divisions, which were managed separately, the branch for the purchase of cotton, and the branch to collect the tax in kind.

Mr. Memminger did not at once employ the authority Congress gave him to buy cotton with bonds. He was only driven to such purchases when the possession of cot-

[106] Of this South Carolina gave $11,171,250; Alabama $3,457,500; Florida, $1,217,200; Georgia, $1,110,100.

ton furnished the sole means to secure the specie demanded for European supplies. The supply of coin in the flood of paper issues rapidly disappeared, for the amount in the Southern banks on January 1, 1861, was estimated at $27,000,000.[107] Preparations had been made at the New Orleans Mint for the coinage of silver, but after four half dollars were struck in April, 1861, the work was not resumed. During the first year the depositories of the cities bought sterling exchange for the Treasury, driving the price to a steadily rising rate. Fraser, Trenholm & Co., of Liverpool, were the foreign bankers, and to them in the first three years some sum[108] less than $10,000,000 must have been remitted. By June, 1862, the premium on exchange had passed 100%, and coin was difficult to secure. At this time the military authorities seized $2,500,000 of the coin of the New Orleans banks to prevent its capture by the Federals. Blockade runners were beginning to take

Sending Cotton Abroad.

out cargoes of cotton to Nassau and to England, and the Treasury saw here an opening for converting the staple into the greatly demanded specie. John Fraser & Co., of Charleston, the correspondent of the Liverpool house, was one of the most trusted agents and assisted in the development of this government shipping. A considerable trade both for public and private purposes was carried on until the ports were captured by the North.

In order to have stocks of cotton to ship the general agents of the Produce Loan were instructed[109] to buy with vigor; Phinzy & Clayton, at Augusta; J. S. K. Bennett, at Charleston, and L. W. Lawler, at Mobile. But not until the crop was being marketed did the activity begin. Then J. E. B. DeBow had been sent to Mississippi, and this was

[107] Eighth Census.
[108] Reports of sub-treasurers.
[109] May 28, 1862.

the region from which the largest supplies were drawn; 2,492 bales were first bought on September 9, 1862, and by December 70,000[110] bales had been secured for $4,474,-400, at 13½ cents per pound. The payment was almost entirely in bonds, the cash outlay being only $46,026. Texas was expected to be a good field for operations, but at first the planters refused to sell for bonds, and the transportation planned to Matamoras was thought too far. A. W. McKee was afterwards placed in charge there, and the larger share of the purchases was turned over to the army of the Trans-Mississippi. The general report of November 30, 1863, showed that 399,753 bales had been bought for $30,314,766, bonds having been taken for five-sixths of the amount. The average price per pound was 17 cents, ranging from 12 in Mississippi to 36 in South Carolina. Alabama, Mississippi and Louisiana furnished 90 per cent. of the stock.

Value of Cotton Purchase.

The report of November 10, 1864, gave an approximate estimate of the value of government cotton purchase. The number of bales had reached 430,724, at a cost of $34,525,220. Of this amount 129,771 bales were lost by capture, burned by the Confederacy and used for war purposes; 67,653 were west of the Mississippi and subject to military uses; 6,961 were sold by the Treasury and 19,683 sent to England to pay the foreign debt, leaving a balance yet available of 191,049 bales. When De Bow was engaged in Mississippi, he estimated that he secured one-third of the stock in that State. The yearly crop had been greatly diminished during the war both from the necessities of the times and because of agitation against growing it. The Senate had recommended[111] that no planter produce more than 3 bales to the man. At that time the limitation of

[110] Produce Loan report of Jan. 9, 1863.
[111] Mch. 13, 1862.

cotton growing was yet expected to exert a political influence in drawing the support of Europe. The crop of 1862 was commonly put at 2,000,000 bales, and as the tithes reported from the yield of 1863 were only 15,000 bales, the depression of agriculture is well indicated. It was thought[112] that 2,000,000 bales remained in private stocks in the South, November, 1864. The fact that 130,000[113] bales went to New Orleans that year shows that prohibitions of exportation were not effectual. The Confederacy was able to control a fair proportion of the staple within its borders, but only a small part of this was utilized in furnishing the most important war supplies. After the war, the United States disposed of this Confederate cotton to the value of $29,500,000.

The Erlanger Loan.

However, the possession of cotton by direct purchase and the subscriptions to the Produce Loan gave effective form to the effort to place a foreign loan. The plan[114] was to issue cotton certificates on the purchases and hypothecate them to contractors. They called for delivery at certain ports after peace, 20 bales constituting a certificate worth $1,000; $1,500,000 of these were sent in November, 1862, to James Spence, the English agent. Through Commissioner J. M. Mason the firm of Erlanger & Co., of Frankfort and Paris, was interested in the investment. Negotiations were carried on in strict secrecy, and a contract between the Secretary of the Treasury and Jules Beeri for Emile Erlanger & Co. was signed January 8, 1863. The Secretary engaged to get full power from Congress for raising in Europe 75,000,000 francs, equal to £3,000,000. President Davis was told[115] the funds were immediately required and prompt action must be

[112] Report of Treasury, Nov. 7, 1864.
[113] Report of Produce Loan, Nov. 10, 1864.
[114] To J. M. Mason, Oct. 24, 1862.
[115] Letter of Jan. 9, 1863.

taken. On January 29, 1863, Congress allowed the loan, and C. J. McRae was sent as loan agent to Paris to sign the bonds, together with Commissioner Slidell.

The bankers made their arrangements so that the bonds were put on the market March 19th. The loan was in denominations of £100 to £1,000, with interest at 7%, payable half yearly, and one-fortieth of the face value of the loan was redeemable at half yearly drawings, commencing March 1, 1864. The £100 bond was made convertible into 4,000 lbs. of cotton at 6d. a pound at any time not later than six months after peace. Notice of 60 days to the Confederate foreign representative was required for such exchange. If after peace, the delivery was to be at the chief ports, but during the war at points within ten miles of transportation. The conditions of the contract required the price of the bonds to be 77%. The bankers received 5% commission on their sales and were allowed all excess of 77%. Payments of the loan were to be made within six months by fixed installments.

The bonds were floated in Paris, Frankfort, Amsterdam, and London, and the full amount was subscribed at 90%. Cotton was then quoted at 21 pence, promising heavy profits, and over 300,000 bales were announced as the guarantee. Although the loan was taken with a rush, the difficulties of getting the cotton out seemed to come as a later consideration. In April the price[116] began to drop, and though fifteen per cent. of the amount had been paid, it was feared that the whole transaction would be forfeited. Erlanger & Co. were accordingly authorized by Mr. Mason to buy back heavily of the bonds, but this bulling of the market kept the rate up only for a time. A portion of the repurchased stock was placed again, but £704,000 remained untaken, and for two years there were frequent Treasury orders[117] to dispose of this. Their rate greatly fluctuated

[116] Report of Dec. 15, 1863, to the Senate.

[117] To Gen. McRae, Sept. 15, Dec. 10, 1863, Aug. 2, 1864.

in this time, declining sharply after the loss of Vicksburg and sinking to 37% in December, 1863. The following year the increased shipments of cotton through the blockade caused a marked rise in quotations, closing again in a fall to 57%.

The report of October 1, 1864, gave the following statement of the dealings:

Total amount of the loan, £3,000,000; bonds bought back, £704,000; bonds of repurchase resold, £195,000; whole amount actually sold, £2,491,000, par value; gross proceeds, £1,772,855; commission and expenses, £173,792; net proceeds, £1,599,063 or $7,675,500.

The bankers, in addition to their five per cent., had the excess of 77% on the sales. This profitable venture induced Erlanger & Co. to offer a new loan of £5,000,000, September 23, 1863, on the same conditions[118] as the first, except that the profits above 77% would be divided equally. Mr. Memminger did not press this contract on Congress, though it was renewed in December, 1864. A balance of the first loan yet remained untaken, and on that venture the government had realized a bare fifty per cent., which in turn did not yield the best returns[119] upon its investment abroad, yet the loan as establishing the for-

SUCCESS OF THE LOAN.

eign credit of the Confederacy may be considered a success, in comparison with the other financial experiences of the South. This was due to two reasons; first, the confidence of the holders of the bonds that they would get cotton in any event; second, the payments of interest semiannually and the drawings of one-fortieth of the principal were faithfully redeemed. The first drawing was paid out of the proceeds of the loan, March 1, 1864, the second

[118] Agreement of Memminger and Viscomte H. de St. Ronan, Letter Book "E."
[119] Bulloch, Secret Service of C. S. in Europe. 1, Vol. II, p. 245.

from the Navy fund, and the third was made under act of February 2, 1865, the total being £212,800.

The London *Index* of September 15, 1864, in commenting on the fact that the Confederate cotton loan was quoted at 73%, while that of the United States was 41%, said that this superior credit abroad was derived from the inestimable strength of the broad substratum of hypothecated cotton. While the general bonds of the Confederate funded debt represented a home currency more or less deranged, the foreign credit was on a different basis. However this condition was true when a relatively small amount was involved, and it is highly problematic to say what would have been the outcome of a broader financial application, unless it had been made in the first year, although then the economic magnitude of the struggle was no better estimated than the military.

State Guarantee of Loans.

Another possible means of strengthening the national credit arose out of the constitutional relations of the States to the Confederacy. State bonds on the market with the Treasury loans rated at a higher premium, and it was conceived that if the several legislatures would guarantee the Confederate bonds, a readier sale would be commanded. Virginia asked Congress on May 19, 1862, to devise a plan, but the initiative belonged properly to the States. General resolutions were passed by several legislatures, but when it came to deciding on a definite sum the scheme failed. South Carolina, on December 18th, agreed to underwrite its quota of a total $200,000,000. But Mr. Memminger[120] saw such vast results from this plan through the reduction of the interest to 6 per cent. by reason of the added security and "by the saving in interest being so great annually as to create a sinking fund to pay off the entire debt," that he urged the amount be made $500,000,000. South

[120] Report of Jan. 10, 1863.

Carolina agreed to this sum if the other States assumed their share. J. P. Boyce, of Greenville, was engaged by the Treasury, March 10, 1863, to represent the movement before other legislatures, but his address in Georgia was negatived by the message[121] of Gov. Brown against any guarantee at all, declaring that such action would make the central government too strong. The Secretary severely blamed[122] Georgia for the failure of the scheme, and declared that the guarantee would have created a sure market in Europe; but any advantage gained from the States' credits would have been temporary, for their financial affairs became equally involved with those of the national government.

Financial State in January, 1863.

The message of President Davis on January 12, 1863, to the third session of the First Congress contained brief notice of the recommendations of the Treasury report, expressing a belief that all the measures would be readily adopted, so that the redundancy would be easily and promptly relieved. The estimates for the half year were submitted[123] in fairly relative proportion to the size of the expenditures. An aggregate of over $300,000,000 emphasized the extent of revenues that must be definitely provided. One item of the budget was the provision for the public debt at $30,000,000; the estimate of the previous year had been $1,500,000, but interest and redemption of certificates and notes had cost $41,000,000 in 1862. The public debt was now, in bonds and stocks, $145,475,370, and in Treasury notes $410,629,692, a total of $556,105,062. Ten months earlier it had been a matter of congratulation that there was no floating debt, but the other obligations now had proportions not so satisfactory. One of the

[121] April 2, 1863.

[122] To H. Tutwiler of Havana, Ala., Sept. 29, 1863.

[123] Report of Jan. 10, 1863.

earliest acts[124] of the session was to pass an appropriation of $20,000,000 to pay interest on the debt. The problem submitted by the Secretary was to reduce the volume of Treasury notes from $450,000,000 to $150,000,000. A currency measure again took precedence of taxation, and the immediate present was provided for in the usual manner. The act of March 23, 1863, limited the issue of notes to $50,000,000 a month. It also contained a complexity of refunding provisions which established the new policy for the withdrawal and discrediting of the excessive issues.

The Demand for Taxation.

On the subject of taxation, Mr. Memminger in his report of January 10, 1863, had spoken with a resoluteness and insistence not found in his previous recommendations. He said: "Ample means in the form of a permanent tax must be provided to secure and pay the principal and interest of the securities in which the holders are required to invest. Such a tax is the corner-stone of the whole fabric. Without it the scheme has no foundation and can secure neither public confidence nor success." The President had said the people will freely meet adequate taxation. The popular tide was now running strongly towards such a measure. The press demanded that the nation be bled heavily. The Richmond *Enquirer*[125] called for a tax of $200,000,000. The delay of action by Congress was bitterly arraigned. The burden of the charge was that the South had "representation without taxation." The House was said to have shamefully neglected its duty to originate a bill. The Revolutionary note issues had depreciated because there was no central power to lay revenues, but in the Confederacy the right of ample taxation was held as a power of last resort.

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[124] Feb. 2, 1863.
[125] Feb. 17, 1863.

The plan[126] of the Secretary was to follow the system used in the War Tax and make the levy upon property and income. He thought that the vexatious and expensive machinery incidental to a system of stamp duties, excises and licenses precluded the use of such sources. A tax on property alone was too great a burden, and while the incomes might partly evade assessment, yet profits had been so large, it was deemed imperative that by some device they be made to contribute. The size of the revenues was gauged by the interest demands of the Treasury notes and the funded debt, a total charge then of $48,000,000. A property tax of one per cent. was estimated to yield $36,000,000, with deductions for occupied territory, based on the War Tax returns for 1862. The possible yield of income tax was arrived at by rating the property of the South at $4,000,000,000, and allowing 7% interest on that sum, then fixing the levy at 10%, returning $28,000,000. Thus would be furnished a tax of $60,000,000, less contingencies, and the excess was to be applied to making redemptions of the principal of the debt yearly. Such redemption was a condition of the one hundred million loan, but had been omitted for subsequent bonds.

On January 13, 1863, a bill to levy a War Tax was submitted, but other matters than currency engrossed first attention, the House engaging in debates on exemption, and the Senate on a judiciary, neither of which measures was adopted. The Ways and Means Committee reported a bill on February 25th, which provided for a tax of one per cent. on all property, an income tax and a system of licenses. The bill was debated a month and then passed with minor changes. The Senate took a strong stand against the property tax, declaring that it was unconstitutional, for direct taxes must be laid according to representation, and the limit of taking the census had been placed

[126] Capers's Memminger, pp. 447-451; Records of War of the Rebellion, Series IV, Vol. II, pp. 317-322.

at February, 1865. The Senate changed the system of income taxation, which had been little graded in the House bill. Instead of 14% on incomes up to $10,000, and 24% on excess of $10,000, the proposal was 5% on incomes from $500 to $1,500, 10% on incomes from $1,500 to $10,000, 12½% on $10,000 to $15,000, and 15% on excess. The Senate also inserted the provision for the tax in kind or the tithe of one-tenth of the products of the farm. This plan was advocated in order to avoid the policy of impressment,[127] regulations for which had been adopted by Congress.

In a special communication[128] Mr. Memminger argued strongly for the tithe. With so many changes the conference committees of the Houses had a labor of adjustment, and their agreement was pushed through in the last ten days of the session.

Tax Act of April, 1863.

The Act[129] of April 24, 1863, was planned to be exhaustive, property in realty and personalty and negroes being excepted. There were four chief sources of revenue; an ad valorem tax on surplus products, the specific taxes and licenses on occupations, trades and business, the graded income tax and the tax in kind. The tax on surplus products was made retroactive in order to levy on the output of 1862, and was in operation for one year, its place afterwards being taken by the tithe. It required a payment of 8% on naval stores, liquors, cotton, sugar, rice, and flour held July, 1863. The gains of speculation, which was so popularly denounced, and so universally practiced, were aimed at in a fashion similar to the surplus products by the section of the Act, that placed a 10% tax on profits by purchase or sale in 1862 of flour, corn, bacon, oats, hay, rice,

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[127] Mch. 26, 1863.

[128] April 2, 1863.

[129] Confederate Acts, Statute III, Ch. 38, Sec. 1-18, Records of War of the Rebellion, Series IV, Vol. II, pp. 513-24.

salt, iron, sugar, leather, woolens, shoes, etc. This did not apply to the retail trade.

Though personal property was exempt, a tax of one per cent. was placed on moneys. In many of the occupations [130] there was a double levy of a license and a percentage on gross sales for 1863. Each business was required to register within 60 days after the Act, and thereafter on January 1st, at which time the license was payable. The taxes on occupation and business were to be in force two years. The income tax was a modification of the plan of the two Houses and a further grading. Incomes under $500 were exempt; those from $500 to $1,500 were assessed 5%; those from $1,500 to $3,000 paid 5% on the first $1,500, and 10% on the excess; $3,000 to $5,000 paid 10%; $5,000 to $10,000 paid 12½%, and those above $10,000 paid 15%. These assessments were to be collected July 1, 1864. Salaries were required to contribute in the following proportion: After an exemption of $1,000, there was a tax of one per cent. on the first $1,500, and two per cent. on the excess. These levies were payable January 1, 1864. The tax in kind was one-tenth of the produce,[131] and must be delivered within two months after the estimates at a depot not more than eight miles from the place of growth. The obligation could be commuted for cash.

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[130] On the following simply a license was placed: bankers, $500; brokers, pawn and otherwise, $200; doctors, dentists, jugglers, lawyers and liverymen, $50 each. The combined license and tax on sales applied to the following: auctioneers, apothecaries, confectioners, photographers and tobacconists paid $50 each and 2½% on gross sales, butchers and bakers with 1% on sales. Retail dealers generally were taxed $50 and 2½% on sales, while wholesale dealers paid $200 and 2½%; wholesale liquor dealers, $200 and 5%; retail liquor dealers, $100 and 10%; distillers, $200 and 20%; brewers, $100 and 2½%; hotels and inns were assessed on the yearly rental, those bringing $10,000 paid $500; $5,000 at $300; $2,500 rentals at $200; $1,000 rentals at $100; less than $1,000 at $30. Theatres were rated at $500 and 5% of the receipts.

[131] The tithe applied to oats, rice, sugar, cotton, tobacco, molasses and slaughtered animals, in addition to the following products where an initial exemption was allowed to the planter of 50 bu. of sweet potatoes, 50 bu. of Irish potatoes, 100 bu. of corn, 50 bu. of wheat and 20 bu. of peas or beans.

Approval and Objections.

The law received popular approval because it was expected to yield heavy returns and bring relief from depreciated currency. Later it was found to be a complex system of many valuations and of many times of payments. The taxation was thought to be equitable in that it did not place a tax on land, then largely unremunerative, but the burden was to come upon the actual products in hand. Yet with all this the farmer was not satisfied, and believed[132] that the tax should have been on the profits of his crop, and not on the gross value. He would have the graded principle applied to the amount of his products as well as to incomes. His proportion looked large in comparison with the two per cent. on salaries above $1,500. The licenses and taxes on sales were commended in that the incidence came on the consumer.

The assumption of the license power by the national government was a distinct encroachment[133] on the reserved rights of the States. In this matter, as in others, the sovereignty of the central government was fixed by the stress of practical conditions. In the tax on the occupations the range of discrimination was slight, and the assessment on gross sales was by no means in accordance with the ability and real profits of the business. A very large share of the tax returns was expected from a year that was past. The surplus products and profits of trade were very difficult to measure, and the probabilities of evasion were very great. The entire system as one of direct taxation was not possible to be equalized.

The revenues from the Act were expected to be ample. The Senate Finance Committee announced that it would raise one-third of the expense of the war and have no parallel in history. There was a vagueness in the estimates, although the tax on surplus products and profits

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[132] Richmond *Sentinel*, Apr. 27, 1863.
[133] Richmond *Enquirer*, Mch. 8, 1863.

was listed to yield $35,000,000. After the law began to operate so as to allow a reasonable conjecture, the Commissioner expected a total sum of $100,000,000.

Machinery of Administration.

A comprehensive Assessment Act[134] accompanied the Taxation Bill. A Commissioner of Taxes was created, and Thompson Allan was promoted, July 2, 1863, to this position from that of chief of the War Tax Bureau. The machinery of the War Tax of 1861 was utilized to some extent, six[135] of the State Collectors being reappointed for the larger work. But collections and not assessments alone now engaged the national concern, and collection districts were constructed in ten of the States, not previously admitting the Treasury agents. It was provided, that appraisements of property submitted would be open to appeal for fifteen days. Then notices of the times and the places of collection were given and the assessed taxes were a statutory lien for two years. Fines and penalties were to be recovered in the name of the Confederate States of America.

The Department promptly appointed its new forces and sent out portions of the printed forms, so that general instructions could be issued by July 23d. But the new undertaking was vastly different from the earlier taxing, when there was a simple form for a uniform tax on twelve objects. Now there were hundreds of subjects embraced under different classes. The object[136] of the schedule was to reach things of which no tangible evidence of liability existed; only the taxpayer having the knowledge. The different times of making returns and receiving collections formed an involved system. A portion of the Act called

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[134] May 1, 1863.

[135] The new collectors were T. C. Green, Va.; E. G. Cabaniss, Ga.; G. F. Neill, Miss.; D. N. Kennedy, Tenn.; A. B. Greenwood, Ark.

[136] Allan B. E. G. Cabaniss, July 30, 1863.

for almost immediate assessment, the date of July 1st for the produce on hand from 1862, and for the profits on purchases and sales in 1862. These taxes were to be collected October 1, 1863. Payments on retail and wholesale business were to be made quarterly, while many other collections were postponed to 1864.

The Tax in Kind.

The tax in kind was the novel feature of the system and was conducted under a separate organization. Its estimates were to be additional to those of the money return. It was planned to provide supplies for the army mainly, and was capable of very efficient contribution, appealing strongly to the highest patriotism of the people. It furnished what the government needed and lessened the use of currency, although the magnitude of its operations made it liable to great abuses. Also in subsequent taxation it served as an instrument to prevent the Treasury receiving vital pecuniary support. In Secretary Memminger's advocacy[137] of the plan, he had placed the possible receipts from the tithe at an aggregate value of $83,000,000. The estimate of the Senate Finance Committee in advance was $135,000,000. It was confidently expected that the cotton tenth would materially supplement the Produce Loan stock.

Collection by the Army.

After the assessment of the products of the planters, the collection was given over to the army, unless commutation was elected by the owner. Col. Larkin Smith, A. Q. M. G., was appointed, May 23, 1863, to have supervision

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[137] He used the crop statistics of 1860, although in 1863 agriculture was greatly diminished. On the other hand his estimate of prices was lower than the market rate, the chief items being 28,000,000 bu. of corn at $1.50 per bu., 100,000 bales of cotton at $120 each, 3,000,000 bu. of wheat at $2 per bu., 4,000,000 bu. of potatoes at $1 per bu., meats to value of $8,000,000 and 10,000,000 lbs. of tobacco at 40 cts.

of this tithe, and a corps of 68 assistants were put in the eleven States. Quartermasters and commissaries serving with the troops were authorized to take the produce and give receipts. Upon reports by these officers to the district collector, credits for the amounts were entered on the assessor's estimates. After March, 1864, the Tax Bureau of the Treasury transferred the entire management of the tithe to the War Department. The yield of these resources

Yield From the Tax.

can be known only by indirect measure, reckoning from the deductions for tithes, entered against the total tax assessments.

The progress of the ingathering is indicated for the first five months by a statement[138] of produce, worth $6,000,000, the main portion of which was corn, wheat, cured hay and fodder. The report announced that the tithe had largely supported the armies in Virginia after September 1st. The record[139] to March 1, 1864, placed the value of the tenth at about $40,000,000, using the current market prices. North Carolina,[140] Georgia and Alabama were the chief sections from which large supplies were drawn. From entire States nothing was realized, and the fertile area of others was curtailed by the enemy. Moreover, transportation was attended with increasing difficulties, giving cause for complaints against the efficiency of the tax. Its thorough management was a highly responsible and complex undertaking in its provisions for collecting, parceling, storage and protection. It is not strange that large quantities of the produce were lost, aside from the neglect and incompetency charged.[141] The expense of the

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[138] Report of Col. Smith, Nov. 30, 1869.
[139] Richmond *Enquirer*, Mch. 8, 1863.
[140] N. C. gave in 8 months, 517,687 bu. of corn, 3,950,000 lbs of cured hay, 10,280,000 lbs of cured fodder, 919,000 bu. of oats. 1,500,000 lbs of tobacco.
[141] Echols of Ga., December 21, 1864, Richmond *Enquirer*; Stephen's Const. View, Vol. II, p. 572.

collection was borne by the army, and for six months of 1864 the appropriation was $12,250,000. In the first operations of Col. Smith the cost had been 7%. From reports of the Tax Bureau and Secretary Trenholm[142] the probable yield of the tax in kind may be placed at $145,000,000.

Price Commissions.

The tithe was of service in postponing and lessening the necessity of the impressment of supplies for the army. This practice had been resorted to in 1862, and the planters were so dissatisfied with the prices assigned, that the crops were decreased. As an arbitration of the dispute, Congress, on March 26, 1863, created a Board of Commissioners in each State, whose duty it was to publish a schedule of prices every two months. Beginning in May with 56 articles, the list had grown to 93 by November. There was yet complaint that the schedule did not conform to market prices, and a Commissioners' Convention in Augusta, Ga., October 26, 1863, endeavored by a series[143] of resolutions to regulate the abuses and inequalities. Through 1864 the undervaluation continued, and a certain sharp increase of the schedule in Virginia was revoked[144] because of the presumed influence on the currency.

Act Slow and Inadequate.

The administration of the Tax Act of 1863 called for a multiplicity of executive directions. The law was ambiguous on many points, and the rulings of the Commissioner had vast scope and authority. A complete system of regulations was issued on December 23, 1863, replacing the several provisional orders and minimizing further causes of delay by the officials. The assessments of quarterly sales, surplus and occupations were variously completed,

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[142] Report of Nov. 7, 1864.
[143] Richmond *Sentinel*, Nov. 2, 1863.
[144] Richmond *Enquirer*, Aug. 1, 1864.

and the first receipts were realized by September, Wake county, North Carolina, having the credit. By October, the volume[145] of payment was well increased, yet the cities were not returning the proportion expected, and of their dues Augusta and Richmond had discharged only one-third by the end of the year. Nine of the States undertook to handle the tax on quarterly sales.

The chief collectors announced[146] that speculators evaded the levy on profits and many other frauds and failures were noted. After a few months, it was generally admitted that the Act would not bring in an adequate tax. This was caused partly by evasion and the system itself, yet largely by increased national demand and higher prices. The President said the taxation was too slow for exigencies since it was not available within a year. But that was a commendable showing in comparison with the War Tax of August, 1861, which had not been announced as completed until November, 1863, the avails having been raised to $19,500,000 from $16,660,000, reported a year earlier.

By February, 1864, the Commissioner had collected $35,000,000 from seven States, Georgia leading with $10,876,000. Up to April 16, 1864, receipts were reported[147] of $82,262,349 from 471 collection districts; 133 districts had been cut off by the enemy, an aggregate embracing one-third of the population of the Confederacy. The actual value of this amount of revenue must be viewed in the light of the depreciated currency of the time. The statement of Mr. Allan was that property had become enhanced five-fold over the prices of 1860, although at the same time he quoted gold at $1 for $17 Treasury notes. It was the persistent argument of the Treasury officials and of the press throughout the war that on account of the peculiar conditions in the South gold was no longer the standard of value, but land and negroes had taken its place.

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[145] Allan's War Tax Correspondence Book "C."
[146] W. K. Lane's letter, Nov. 17, 1863; J. D. Pope's, Jan. 4, 1864.
[147] Report to Congress, Apr. 29, 1864.

Direct Taxation.

The recognition of the inadequacy of the Act in force brought the sentiment in favor of direct taxation to prevail. Secretary Memminger, in his report[148] to the fourth session of the First Congress, on December 7, 1863, said that the necessities of the situation no longer allowed a hesitancy for the letter of the Constitution, requiring a census to be taken before direct taxes could be levied. "The land and negroes in the Confederate States contributed two-thirds of the taxable values, and the policy on the part of the States which had ratified the Constitution, was to withhold from contribution to the maintenance of the war the very property for which they were contending. In war time the tax ad valorem would be even more equitable than one based on representation, since so many districts were occupied by the enemy." President Davis joined the Secretary in urging a property tax; he said in his message of December 8, 1863, "The special mode for levying a tax is now impracticable, but Congress is not excused from the general duty; I shall approve any taxation of yours in any mode which puts the burden uniformly on the whole property."

Confederate Inefficient Taxation.

The Treasury asked for a rate of 5% upon a taxable basis of $3,000,000,000 of property, and allowing 20% for evasions, expenses and contingencies, the proceeds were reckoned at $120,000,000. Half of this sum was to go for supplies and half to sustain a new issue of bonds planned to consolidate the public debt. It was asserted that the bonds would not secure credit unless definitely guaranteed by a tax on real property. The House showed its estimate of the need of financial legislation by refusing to refer the recommendations to the Ways and Means Committee, or to the committee of the whole, but a special committee of

[148] Capers's Memminger, pp. 457-476.

one from each State was instructed[149] to prepare a bill for taxation upon real and personal property, according to values. There was again a popular cry for heavy taxation, but the enormous rise in prices since the original act made estimates of the amount very uncertain. The House was disposed [150] to levy a sum aggregating $400,000,000, and the suggestion of a 10% call on property had many supporters. But the traditional policy of the avoidance of direct payments could not be forgotten, and the spirit in the Senate was opposed to that of the House. Gov. Brown, of Georgia, even called strongly for a repeal of the tax in kind. Final action on the bill was again left to the day of adjournment, when the rate proposed by Mr. Memminger was finally accepted.

However, there were various amendments to the Act of 1863 of such a character as to emasculate it entirely and complete the record of the Confederate Congress for in-

Act of February, 1864.

efficient taxation. The bill was passed on February 17, 1864, along with the Currency Act and Compulsory Funding. Its chief feature was the system of rebates; the new 5% tax on property was offset by the tax in kind, and the income tax was credited with the ad valorem tax on property. The additions[151] of the law were taxes of 10% on gold and silver plate and watches, etc.; 5% on gold and silver coin, bullion, and dust held by banks or people; 5% on solvent credits, bills of exchange, moneys held abroad and on paper issued as currency; 10% in addition to the tax of 1863 on profits made in trade and business from January 1, 1863-65; also 25% on profits exceeding 25% made by any bank, joint stock company, corporation, or manufacturing concern. In the assessments property was strangely rated at the prices of 1861, unless sold after

[149] Dec. 9, 1863.
[150] Montgomery *Mail*, Jan. 12, 1864.
[151] Acts of Congress, Statute IV, Ch. 64.

1863, while other values were estimated in current prices of February 17, 1864.

Criticisms and Defects.

The application of these laws called forth the most bitter criticism and opposition. The two rates of assessment were charged to have been made in the interest of the agricultural class. The banks were very persistent objectors. A convention of the Virginia and North Carolina banks was held to protest. The memorial of the South Carolina banks of April 7, 1864,[152] summarized their grievances; they were taxed twice, on their capital and on their deposits and issues, which were invested in solvent securities. As the credits exceeded the capital two and threefold, the banks were contributing from 15 to 20%. Besides the stock was valued at such a high rate that the tax often exceeded the dividends. The tax on government securities was loudly denounced as a breach of contract. The levy on all these forms of investment worked a great hardship. While it was aimed against speculators, the chief sufferers were trust funds, widows and those dependent on such incomes.

The landed interests in contrast bore a valuation admittedly five times less in proportion, and probably much lower. Also, the tax on coin had a special interpretation, for the "amount" of all gold and silver coin was the wording of the section. The levy was made accordingly in kind and the share of coin then converted into currency notes at the ratio of 18 to 1 by the Treasury order of March 9, 1864. This action was held to serve as a check on depreciation, as if the gold in itself was to be legislated against. Thus land worth $10,000 on the basis of 1860, paid $500 tax in notes, while $10,000 in coin was assessed $9,000 in paper.

But the culminating defect of the amended Act was that

[152] Report to Memminger.

the tax could be paid by the four per cent. certificates in which the compulsory funding of the redundant notes was proceeding. The wise plan of Mr. Memminger had been to use the coupons of the new bond issue and the new notes, but this alteration by Congress precluded the Treasury's receiving any considerable pecuniary aid from the Act in 1864.

Reform of the Cumbrous System Demanded.

On the assembling of the Second Congress on May 2, 1864, the Secretary demanded[153] firmly the reforms of the system, specifying particularly the repeal of the tax in kind, deduction from the five per cent. property tax, the repeal of the deduction of the ad valorem tax from the income tax and a correction of the discrimination as to the dates of assessment of real and personal property with respect to other values. He also pointed out the inequalities suffered by the banks and corporations. His arraignment of the system gives an estimate of what real worth there was in this presumedly large attempt at taxation. He said it was marked by inequality, amounting to injustice, and so cumbrous and intricate that delay and disappointment were its inevitable results.

Further Complications.

Congress refused to make the chief reforms and brought the final alienation with Mr. Memminger. Moreover, to meet the increased pay of the troops, the Soldiers' Tax was created, an added 20% to all assessments then operative. On the last day of the session, June 14th, there was an amendment[154] to the Acts of April 24, 1863, and of February 17, 1864, to the extent of relieving the banks merely of the tax on deposits. Another effort was made to reach speculation in an extra 30% tax placed against profits realized on trade and sale between February 17th

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[153] Capers's Memminger, pp. 484-7.
[154] Acts of 2nd Congress, Statute I, Ch., 44.

and July 1, 1864. Congress approved the ruling of the 5% tax on coin or exchange to be in specie or in notes at relative value, *i. e.*, market rate, thus discrediting its own money by legislative sanction.

Administration of the Measure.

There had been ambiguity as to which year the abatement of the tax in kind had application, and as the general taxes were due June 1, 1864, the property tax would be collected in advance of the ascertaining of the tithe. Further delay resulted at this juncture by the order[155] that the property tax be suspended until the value of the tenth was known. Hence, when the commissioner made his report,[156] the collections were $118,000,000 on an assessment of $145,527,421, a comparatively small increase over the report of six months earlier. This total included the receipts under the Acts of April 24, 1863, February 17 and June 14, 1864, and was the taxation for two years on several sources of revenue, being also inclusive of the levy on surplus products of 1862.

No complete new assessment of property other than the valuation under the War Tax of 1861 was made. In preparing the statements there was much approximate[157] figuring. The Commissioner had to estimate the probable portion of the territory in the possession of the enemy and then make deductions. Using the assessment return of 1861 for a State, to this would be added 20% for property not subject then, but taxable under the Acts of 1863-64.

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[155] Regulations of Commissioner Allan, June 14, 1864.

[156] To Secretary Trenholm, Oct. 28, 1864, Letter book "E."

[157] The tax for Georgia was: Real and personal property, assessed under Act of Aug. 19, 1861,....$564,173,946.82. To this add 20% for property, taxable after 1861,....$112,834,789.36. Total, $677,008,736.18. Tax thereon at 5% is $33,850,436.80; jewelry and watches (say) $2,500,000, at 5% more, equals $125,000, total, $33,975,036.60.

Deductions, destroyed by the enemy (say) 5%, $1,698,771, credit of tax in kind (say) two-thirds, $21,517,776; credit of income tax (say) 10%, $3,227,666, net proceeds, $7,431,218.

From the 5% levy on this sum, successive deductions were made for the destroyed proportion and for the credits by the tax in kind, frequently two-thirds of the total, and by the income tax reckoned at 10%.

These rebates, charged against the property tax, left comparatively small net proceeds to be collected from April to October, 1864. With the removal of the system of abatements, the total receipts would have been almost trebled, counting the tax in kind at $145,000,000 and the income tax with other credits at a less figure. The estimate[158] of Secretary Trenholm was $374,188,414.

Mr. Memminger had asked for too small an amount at the inception of the Act of 1863. Congress had been still more niggardly in responding and finally had so vitiated the efficiency of the revenues voted, that the Treasury was forced to continue to the end the policy it too readily had adopted at the beginning, the payment of its debts with government paper.

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[158] Report to Congress, Nov. 7, 1864.

CHAPTER IV.—REPUDIATION.

The financial policy of the Confederacy was inaugurated with loans and issues of government money. When the circulation of the banks of the South had been more than displaced in the first year of the war, the emission of paper did not cease. With the certainty of depreciation realized, the problem then was to retire the surplus currency by some measure that would make room for further new issues of notes to meet the increasing appropriations. The reliance on the efficacy of the provisions for funding was implicit. When the first payment of interest on the bonds in January, 1862, had been made in coin, there was a standard set that the administration had not adequately planned to continue. The succeeding payments on bonds had to be made in Treasury notes, and these beginning to depreciate, the bonds likewise cheapened. The working of this system was such that the one resource proved an imperfect check in preventing the abuse of the other.

Again, the payment of interest on Treasury notes in 1862 operated against a larger sale of bonds in that year. The guarantee back of the bonds was not definite enough. The property of the Confederacy was viewed as a security only in a general way. The continued higher quotations of the first loan of fifteen millions, with its pledge of the duty of cotton export, testified to the superiority of this stock. As a pledge against the one hundred million loan, the War Tax was not sufficient to give absolute security. Suggested reforms[159] always included a plan for coin or cotton back of the government obligation.

As the emission of notes was the established resource to replenish the Treasury, so changes in the methods of funding became a sovereign remedy for redundancy, being directed to induce a larger use of bonds. Yet the rate

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[159] Richmond *Examiner*, Apr. 1, 1862; Richmond *Sentinel*, Aug. 12, 1863.

on the highest stock, eight per cent., was small in comparison with the profits to be gained in the most ordinary trade. An accurate reflex of the depreciation of the finances was found in the increase of speculation. This contagion[160] was well spread in 1862, and in the tendency to dispose of the notes quickly, prices were steadily mounting and the standards of gain proportionately swollen.

A Currency Corrective.

In this condition of affairs Congress took its first step in altering the terms of the contract offered for funding notes into bonds. It was in the second session after the unfortunate bill for taxation in the shape of a forced loan had been postponed on the plea that the country was not yet ready. On October 9, 1862, a bill was reported by Chairman Kenner that reduced, after December 1st, the interest of all bonds to 6%, and the holders of notes were given four months to get the advantage of the higher rate of funding. This was amended by the Senate to 7%, and six months allowed in which note holders could fund at 8%. The bill was passed October 13th, and constituted the sole currency corrective of the second year of the Confederacy.

The advocates of the measure believed that it would bring in so vast a quantity of notes as to remedy depreciation and also would so enhance the value of 8% bonds that the Secretary would make large sales. The Richmond *Whig* was incredulous and expressed[161] the opinion that Congress, in announcing the panacea of one per cent. difference in interest, had undertaken to settle the currency question by an expedient which seemed trifling and contemptible in view of the magnitude of the attempted results. In December the most sanguine estimated that by April 22, 1863, the limit, $120,000,000 of notes, would be funded and thus relieve the new issues, which were half a

[160] *Examiner*, Sept. 23, Oct. 22, 1862.
[161] Oct. 14, 1862.

million daily. In February the experiment[162] was going well. The new notes, fundable in 7% bonds, being issued after December 1, 1862, were displacing the old notes, whose holders hoarded them. The bonds had gone to a premium of 100½, and by April reached 105. The funding[163] induced by the Act amounted to over $50,000,000 from January 1st, as against $17,500,000 for the previous five months. But within the same period $130,000,000 in notes had been paid out, and this increased scale of funding was yet far too small.

The Secretary's Funding Scheme.

The Secretary in his report of January 7, 1863, had marked out the way for the extension of the policy which had met with such a fair measure of success. His recommendation[164] was radical and a precursor of the final desperate solution of the currency difficulties. It was, that after a reasonable lapse of time the Treasury notes, bearing date previous to December 1, 1862, should cease to be currency. To carry out this plan the notes, already fundable until April 22, 1863, in 8% bonds, and thereafter in 7% bonds, must have a period of limitation also for the lower rate of conversion, and that date to be July 1, 1863. The results from the limitation to 8% funding were believed to have failed of their highest efficiency, because six months grace was too long a time allowed for its operation. Sixty days were now considered ample as a stimulant for a new funding provision. The financial policy was to be definitely changed from one of offering inducements to take the government obligations to that of applying a small portion of constraint on the note holders. An abundance of money in the country was

[162] *Whig*, Feb. 5, 1863.
[163] Letter Book "E," Apr. 11, 1863.
[164] Caper's *Memminger*, pp. 445, 446.

proven by the large sums held on deposit and by the amounts invested at interest in private hands, as reported by the War Tax.

The Secretary believed that two-thirds of the currency could be funded without material danger to private interests. He met the charge of infringement of contract with a combination of excuse and argument. The first plea was that Congress had already established the principle by the act reducing the interest on the bonds to seven per cent. Again, the time of the contract was not prohibitory of change, if a full opportunity was allowed to receive the benefits of its performance. Finally the modification of the conditions of the note would be a benefit to both parties in the increased purchasing power of the remaining currency. Thus expediency was the main determinant, however questionable the legal warrant. To the further objection that the note lost its value as money, Mr. Memminger replied that although this function was gone, its intrinsic value would be unimpaired, being yet receivable for public dues and having the faith and property of the Confederate States pledged for its payment.

But it was evident that a body of notes yet accepted for government obligations would continue to circulate and choke the channels of trade, and it was only a question of time until more heroic measures must cause their removal. The Treasury may be judged to have realized that this limited funding measure was a temporary expedient at best. No sudden large contraction was feared by reason of it, for the circulation of new notes for the six months of 1863 was calculated to reach $200,000,000, a very low estimate. Then the situation of January, 1863, would be repeated and the same redundancy must be again faced. The possible depreciation in the price of the bonds from the large funding of notes induced was looked upon as the lesser of two evils, since the depreciation of the notes much exceeded that of the market value of the bonds.

Action of Congress.

The recommendations of the Secretary found Congress ready with many plans of tampering with the currency, including an advocacy of a legal tender measure. Mr. Baldwin, of Virginia, had the anticipatory plan of funding all notes prior to April 1, 1863, at a monthly decline in the interest rate of bonds of one per cent. from July to December and then declare all notes discharged. Another measure was to exchange the old issue on the basis of $300, allowing $200 in bonds and $100 in legal tender. The bill of Mr. Hunter, chairman of the Senate Finance Committee, was introduced to embody the wishes of the Treasury, and was passed January 30, 1863, with amendments. The limitation of 7% funding was July, but notes issued since December 1, 1862, were included, with the added privilege that after July they could be funded in 4% bonds. The new notes to be issued after April 2, 1863, were to have the fundable provision for six months at 6%, and then to be converted at 4%. Mr. Hunter admitted a breach of promise in limiting the time of funding, but defended it as an imperative measure without which the currency must expand until the public debt was so large that there would be slight hope of payment.

When the bill went to the House, it was debated until March 4th, the legal tender remedy being again urged. The minority fought the measure on the ground that the periodical demonetization of the notes would be unintelligible to most people and the funding not largely observed. However, the House sent the bill back to the Senate with changes in the times of funding which were finally accepted, and the Act[165] as passed on March 23d,

All Kinds of Financial Paper.

established three classes of notes; those prior to December 1, 1862, $290,000,000 originally in amount, were fundable in 7% bonds until August 1st, and then ceased to be

[165] Acts of Congress, Statute III. Ch. IX.

currency; notes issued between December 1, 1862, and April 7, 1863, were fundable in 7% bonds up to August 1st, and then in 4% stock; notes after April 6, 1863, were fundable for 12 months in 6% bonds, and thereafter in 4%.

Besides the legislation on the notes, there were many other financial provisions in the Act. A further use of call certificates was arranged at a lower rate of interest. The six per cent. bonds and notes issued after April 1, 1863, could be put into 5% call certificates. The 4% bonds were convertible into 4% call certificates. All former 6% call certificates were considered to be funded into bonds on June 7 and lost the power of conversion into notes. The seven-thirty notes had been discontinued as an issue when the first limitation of funding began, and now they were also classed as funded.

While the Act contained authority to issue $50,000,000 of notes a month, it had the provision that the Secretary use any disposable means in the Treasury to purchase notes until the whole amount was reduced to $175,000,000. To accomplish this three classes of bonds were named; (1) $200,000,000 of 6% stock, to be sold to any of the States; (2) if guaranteed by the States, the special bonds to be sold for notes to the highest bidder; (3) $100,000,000 of bonds at 6%, with coupons, payable in notes or in cotton certificates, which pledged the government to pay in cotton at the rate of 8d. sterling and delivered within six months at certain points.

The first two securities were never issued, but the third class, modified by the Act of April 30, 1863, represented the first extensive effort to sell bonds direct since the fifteen million loan of 1861. In all seven classes of stock were authorized.

The Depositories.

The increased funding plans called for an enlargement of the force of depositories. By the Act of April 15, 1862, there had been an increase of these officials, when to their duties of disbursement and deposit were added the ex-

change of certificates for notes. They were also made agents for the sale of bonds and were the great intermediaries for the funding transactions. The notes were received by them and forwarded to the Treasury at Richmond, which performed the cancellation and sent back the bonds in exchange. In March, 1863, the demand to fund before April 22d necessitated the second greater extension of the depositories. With the passage of the new law, it was found necessary to create a special district in the West, the Trans-Mississippi, which military operations had cut off from the East, and Gen. Kirby Smith was directed[166] to form a Treasury Note Division at Monroe, La.

The reduction in offering bonds from 8% to 7% for notes did not cause any cessation of funding. Rather an end had been made to the hoarding of notes, for the anticipation of demonetization was taking possession of the public. Many of the banks helped increase the feeling of insecurity by refusing to take the paper issued previous to December 1, 1862. Their excuse was the desire to induce greater funding within the limitation. It was natural that they attempted to save themselves, though later they were persuaded to receive the notes on deposit. Circulation had been loyally given in the past to the government obligations by the people at large, but now discrimination began to be made against issues of certain dates, for it was said[167] repudiation had set in.

Fear of Repudiation.

In such a state of affairs prices were not slow to respond, and gold experienced the sharpest and greatest rise of the war. In March the premium was 300, on April 30th 500, on June 11, 700, and in August $12 in notes exchanged for $1 in specie.

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[166] July 3, 1863.
[167] *Enquirer*, June 20, 1863.

Progress of Funding.

The reports of funding showed that by June 8th $64,000,000 of notes had come in under the two Acts of October 13, 1862, and March 23, 1863. This had increased in July to $84,000,000, and the total funding was announced by Auditor Robert Tyler, on August 18th, to be $126,000,000. This represented over forty-three per cent. of the proscribed issue prior to December 1, 1862, yet it left a bulk of $165,000,000 demonetized currency which was acceptable for public dues, and the $120,000,000 of 7-30 notes besides had full circulation. The relief was small when the extent of the new issues was taken into consideration, since within that period $380,000,000 must have been emitted, the statement for the three quarters ending September 30, 1863, being $391,000,000.

A Sanguine Secretary.

Nevertheless, Mr. Memminger was sanguine, as was his wont, and in a communication[168] of August 24th to R. M. T. Hunter, said that the funding had been eminently successful, since the outstanding notes were within the limits of depreciation reported at the last Congress. At that time the total amount had been three-fold greater than the estimated required circulation of $150,000,000. The reassuring figuring of the Secretary was based on the conclusion that $150,000,000 of the outstanding circulation was held west of the Mississippi, and there then remained in the east a proportion much less than three to one. On the date of July 22d, he had written[169] to G. B. Lamar, of Savannah, that while the loss of the Mississippi river was a very serious injury to the cause, yet in the arrangement of Providence it had its counterpoise in cutting off the old currency there from affecting this side. He thought if the Treasury were rid of the old currency in the east, it could get along for another year.

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[168] Richmond *Enquirer*, Aug. 24, 1863.
[169] Letter Book "E."

But depreciation could not be arbitrarily measured by the excess of outstanding notes over an assumed limit. The military reverses were adding their effect to the financial situation and the merchants of that period were demanding $12 in currency for goods that $1 in specie would buy.

Failure in the Sale of Bonds.

The attempted large sale of bonds was likewise impaired. The stock offered had for security what many considered the ultimate standard of value in the South. But some of the conditions of the contract were in a measure responsible for the wide non-acceptance of the investment. The $100,000,000 bonds of the Act of March 23, 1863, with 6% coupons, payable in notes, or cotton, the cotton to be delivered within six months, at the option of the holder, had the supplementary legislation of April 30, 1863, applied to it, by which the new stock was authorized to be $250,000,000, with coupons payable in specie or cotton, the cotton to be delivered at the option of the government six months after peace. These cotton interest bonds must be sold for Treasury notes alone, and the proceeds devoted to the purchase of produce. This was a double scheme of funding notes and buying cotton, but as the stock was so little taken, the resources for the purchase of the staple were limited, and from 1863 there were slight accessions to the holdings for the Produce Loan.

Mr. Memminger was not pleased[170] with the new form of bonds, yet he extensively advertised them to be offered to the highest bidder on July 20th. The stock was to be confined to home purchasers, whereas the original form could have been sent abroad. The investment seemed most profitable, for the $1,000 bond would pay interest in 500 lbs. of cotton at 6d. or 12⅛ cents, while cotton was then selling at the ports from 32 to 40 cents. The first

[170] To Secretary Mallory, June 16, 1863.

bids were too few to allow a sale, and upon the second advertisement a number of offers were accepted at 50% premium in paper money, then rated at 12 to 1 of gold. The bonds were widely placed with the depositaries and their sale strongly urged, with the insignificant result of placing $2,000,000. The quotations of the market were such that large investments in these bonds must have entailed a heavy loss on the government, if they had ever come to payment.

However, the public was not taken by these inducements, since it judged the cotton interest certificates to be a form of general liability for the indefinite delivery of the staple. Other bonds were quoted at a premium in Treasury notes, but their specie value declined through the year along with that of the notes. The funding of notes into 4% bonds after August 1st was practically stopped, while only a small exchange was made for 6% bonds. Prices grew intolerably high for necessaries. Fuel was $40 a cord in Richmond in September; bacon sold at $3 a lb., and corn-meal brought $12 per bushel, when formerly it sold at 75 cents. Prices in the interior also fluctuated widely. A feverish condition of the markets was dominant. Bragg's victory caused[171] gold to fall from 15 to 1 to 8 to 1.

Desperate Remedies Considered.

The currency had now reached a condition where it held the supreme public attention. Innumerable remedies were offered on every hand. The position of the administration was expressed in a letter of the Secretary of the Treasury to President Davis on September 1, 1863. He said, "Plans for meetings to discuss aid are futile. I endeavor to correspond with individual merchants and bankers. The two difficulties that confront us are distrust of the stability of the government, to be relieved only by

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[171] Richmond *Sentinel*, Sept. 22, 1863.

military successes, and expectation that the issue of notes will be indefinitely continued; this can be relieved by the determinate refusal of Congress and by a resolute effort to raise money by taxes and bonds."

There was nothing new in this program, but the prevailing popular expression was likely to decide the final policy. One remedy was strongly advocated by a portion of the press, and had the approbation of many public men. That was the plan[172] of compulsory funding, which would free the country of its excessive currency by a disguised repudiation. The two preceding Acts limiting the time of funding were considered as merely voluntary, appealing to the patriotism of the people. The banks and retired merchants had responded, but the great majority of note holders preferred to speculate in other investments. Now, as conscription had to be applied to the military necessities, so forcible[173] conversion of the currency was to be apportioned as taxation, thus gathering from all their share.

Bankers' Convention at Augusta.

The banks, as representing conservative interests, met in Augusta, Ga., November 16 and 17, 1863, when thirty-six institutions from Georgia, South Carolina, North Carolina, Tennessee and Virginia, had delegates. Mr. G. A. Trenholm, afterwards Secretary of the Treasury, presenting a line of action adopted by the South Carolina banks, was made chairman of the committee which drafted the resolutions sent to Mr. Memminger as the sense of the convention. The recommendations[174] declared that dues collected, and for which Treasury notes were made receivable, had proven inadequate to absorb a sufficient amount of notes to prevent redundancy and now measures must be taken to reduce the circulation to $200,000,000. The following means of doing this were suggested: (1) A new

[172] Charlotte *Democrat,* Nov. 7, 1863.
[173] Richmond *Sentinel,* Oct. 27, 1863.
[174] MSS. of Treasury Department.

issue of coupon bonds of one billion dollars, bearing six per cent. interest, with the coupons payable in coin yearly; (2) To meet the wants of the government in the future a sufficient tax should be adopted, and notes be issued as little as possible; (3) A levy of $60,000,000 to meet the interest of the new bonds and the tax be paid in specie or coupons of the bonds in lieu of coin; (4) the bonds first to be apportioned to the States and notification to the taxpayers in each district to provide themselves for the tax; the bonds hitherto issued and all Treasury notes were to be received in pay for the new bonds; (5) all existing distinctions between Treasury notes of different issues and dates were to be abolished; (6) increased duty on all imports and exports during the war to be paid in coin and exchange; (7) an Issue Department be created and kept separate from the Treasury Department.

The Secretary's Plan.

The Secretary of the Treasury had been invited to attend this convention, but sent as his personal representative Wm. Johnson, President of the Charlotte and Columbia R. R. Mr. Memminger had well in mind the plan that he would present to Congress in the following month, and his delegate was thoroughly acquainted with it. It was to resemble the scheme of the banks, yet have peculiar features of its own, as the letter of instructions to Mr. Johnson on November 11th discloses. The Secretary told him to hold back part of the plan, for it would probably do harm if there were information beforehand of the precise compulsory measures intended. He was directed to present the other portions, and if the convention approved, it might advise measures which would bring in those disposed to hold back.

Mr. Memminger said it would be very unfortunate if by giving the politicians information in advance of the action of Congress, they should agitate against his plan. The

Treasury remedy was clearly outlined[175] to G. B. Lamar, of Savannah, the leading idea being a fancied return to specie values. A sufficient tax, payable in coin, and levied on property, was to guarantee the interest on a new loan that would absorb the whole public debt. In lieu of coin, the coupons of the loan could pay the tax. The writer said the country was now prepared to coöperate in retiring the currency, and stringent provisions would make the measure certain, for no more risks could be run.

Criticisms of Augusta Plan.

The Augusta plan caused considerable discussion and was criticised as being impracticable. The nature of the objections was that the distrust of the government would not allow a sum of bonds to be taken that was twenty times the banking capital of the South, and that little short of general confiscation would put the currency on a safe basis. There had been from time to time various expressions[176] of a want of confidence in ultimate redemption. In the main, the sentiment[177] had grown more pronounced in favor of compulsory funding.

The Shattered Currency.

The Secretary matured his plans, bearing a marked resemblance to that of the banks, yet containing features of temporizing and of radical variance. His statement[178] to the Fourth Session of Congress made evident the unsound condition of the finances. The receipts[179] of the Treasury from January 1st to September 30, 1863, had been $601,522,893, and the expenditures $519,368,559. Civil purposes had demanded $11,629,278, while war re-

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[175] Letter of Nov. 9, Book "E."

[176] Augusta *Chronicle*, Sept. 26, 1863.

[177] Richmond *Enquirer*, Nov. 19, 1863.

[178] Caper's *Memminger*, pp. 457, 458.

[179] Bonds were credited as follows: 8% stock, $107,292,900; 7%, $38,737,650; 6%, $6,810,000; call certificates, $23,475,100. Treasury note issues were $391,623,530.

quired the balance, excepting $32,212,290 on the public debt and $59,000,000 for notes cancelled. At the same date $65,000,000 of notes were held for cancellation. The funded debt had reached $293,000,000; the unfunded was $701,500,000, consisting of notes, excepting $26,000,000 five per cent. call certificates.

Of the total receipts, notes had supplied 65 per cent. and loans 30 per cent., but the very large part of the latter was the compulsory creation of the funding by limitation of the old and new issues of notes.

Taxation in this period of rapid depreciation had furnished a proportion of two-thirds of one per cent. The proportion in the previous report, from the establishment of the permanent government, February 18th to December 31, 1862, was seventy per cent. from notes, twenty-two per cent. from loans and three and two-thirds per cent. from taxation.

On September 30, 1863, there were $476,000,000 of undrawn appropriations. The estimates for expenses up to July 1, 1864, were $475,500,000. Doubling this latter sum to have the total for the calendar year, a need to provide for almost one billion and a half dollars faced Congress when it met December 7, 1863. It was admitted officially that prices were inflated five-fold, while at the same time tax assessments were made at a rate of ten to one for gold.

Billion Dollar Loan Scheme.

The administration program[180] was directed to the absorption of the mass of notes. Accepting $200,000,000 as a necessary circulation, $500,000,000 had to be retired. With such a reduction prices were expected to become more normal, and the expenditures for 1864 would be about $400,000,000. The oft-quoted fifteen million loan was taken as a model, and a new loan of one billion, payable in twenty years, was projected, whose six per cent.

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[180] MSS. of Treasury Department.

interest coupons should be made available in public payments as the equivalent of specie dues. This loan was to serve a double purpose, $500,000,000 to be devoted to the funding of the excess of notes, and $500,000,000 to be sold to furnish supplies and to be exchanged to consolidate the debt already funded. This new stock was to be made presumably as good as gold by having specifically pledged for its interest $60,000,000 of taxes on all values, to be paid in coin or the interest coupons of this loan. Taxation was conceived to create a similar demand for these coupons to that which the export duty on cotton fixed for the coupons[181] of the fifteen million loan, and thus the bonds were said by the Secretary to have the best security which the government had yet offered. In addition, for the ultimate redemption and for the interest of the bonds not used in funding there was to be a definite guarantee of a duty on exports and imports for a period of five years after peace.

Compulsory Funding the Chief Feature.

The new obligation of the Treasury remedial plan resembled that of the Augusta Convention, excepting that the interest of the bonds and, preferably, the taxes, were to be paid in specie by the Augusta plan, instead of some arbitrary equivalent of specie. In further agreement, in order to prohibit future over-issue, the Secretary asked Congress for an absolute limit of $200,000,000 of notes. But the compulsory funding was the feature of the recommendations, which in severity well answered the popular clamor and at the same time was certain to meet the condemnation of the conservative interests. It required all notes in excess of $200,000,000 to be funded by April 1, 1864, east of the Mississippi, and by July 1st west of the Mississippi. After these dates the notes not only lost their funding privilege, as in the Act of March 23, 1863, but ceased to be receivable for public dues. They remained

[181] Capers's *Memminger*, pg. 467.

only as evidences of debt payable according to their tenor. All notes were required by the plan to be funded except those under five dollars. The $200,000,000 of the old currency not immediately retired could be exchanged within six months for an equal sum of the definitely limited new issue. These notes were to be accepted along with the interest coupons for the proposed property tax.

Some Justification Urged.

The earlier partial repudiation had prepared the way for these more radical measures, and the plea of expediency again sufficed. Mr. Memminger admitted[182] the violations of the note contract in the right to receive a sum of money two years after peace and the right to use them for government dues. He offered no defense of the second infringement, which the sovereign power of the nation alone was left to justify. But in the first alteration the Treasury was argued to have maintained its good faith by offering the bonds during ninety days for the notes, and in lieu of the specie promised this was the best security to be given for the present, unless the actual payment was postponed until better times. Such an enactment was urged to be in compliance with the spirit of the law, if not the letter, and the only measure that would save the value of the notes issued and likewise prevent the ruin of public and private credit.

The admininstration, to exonerate itself further, made an ungrateful denial of the resource which had served so faithfully, even if to its destruction. It declared that the legislation now against the notes would be no interference with the rights of the people, as between each other, since there had been no express contract to make them currency, and Congress had always refused to pass a legal tender act for them. The conclusion of the whole matter was that no contract, however solemn, could require national ruin.

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[182] Caper's *Memminger*, p. 469-470. Report to Congress.

The sanguine Secretary believed that the compulsory feature would be less objectionable because the inducements of the bonds would bring in a vast part of the currency voluntarily.

The President seconded unqualifiedly in his message of December 7, 1863, the heroic policy outlined. He said[183] that taxation was too slow for exigencies, and the amount of notes was so swollen that to remove the cause of it no measures could be too stringent. He asked Congress to give its earliest and entire attention to the currency. The chairman of the Finance Committee, Mr. Hunter, was ready for a revolution in finances. He contended[184] that precedents were against paying debts in full. The United States had not done it. The Confederate notes had been greatly superior to the Continental issues, which were not fundable. This had been a good feature, while currency was not in excess, but now it had become utterly destructive of public credit. Mr. Hunter thought the government should confess like a merchant who is involved and start again. But such absolute repudiation was very little approved.

Clash of Views and Interests.

The plans of the Treasury were subjected to sharp criticism in Congress by the advocates of contending policies. The funding was objected to as the chief remedy of the currency rather than taxation. Such a policy was thought to place too high a value on the notes, in addition to the ruinous practice of exchanging non-interest bearing notes for high rate government securites. Under the direction[185] of Senator Brown, of Mississippi, the proposition to tax the notes 25 or 33 1-3 per cent., received increasing favor. The right to tax notes was held to be the same as that

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[183] Richmond *Enqurier*, Dec. 8, 1863; Records of War of the Rebellion, Series IV, Vol. II, pp. 1035-1040.

[184] Richmond *Sentinel*, Dec. 4, 1863.

[185] Richmond *Sentinel*, Dec. 24, 1863.

over any other property. President Davis had hinted in this direction, saying if each person held notes according to his ability, it would be the best form of taxation. The supporters of a legal tender measure renewed their efforts. A bill of Senator Phelan to make the interest coupons of the new bonds legal tender received an unfavorable report and was tabled February 3, 1864. Gen. Duff Green, who had been connected with various financial projects, memorialized Congress January 6, 1864, against converting the mass of depreciated notes into a funded debt. He wanted a direct tax on notes and the use of bonds for expenses.

The double remedy for the currency of funding under a penalty and of heavy taxation of notes brought a clash of the branches of Congress and led[186] to confusion and delay. There was a divergence of opinion as to the proportion of notes to be given for bonds and for the new currency. The House voted to tax the notes, while the Senate rejected the proposition; yet after conference a measure was enacted that combined many of the features of the administration plan with radical Congressional amendments. The objection to treating the whole sum of notes to the same process and the fear that special bonds with coupons receivable for taxes would be used as currency shaped the legislation.

The Ruinous Culminating Act.

The Act of February 17, 1864, was the culmination of the currency laws of the Confederacy. It was heralded as "marking an epoch in the monetary department of modern polity." But the discrediting of the public obligations by this act so paralyzed the national finances that no more serious repudiation needed to be projected for enactment in the succeeding final year. It was a combination of funding currency and taxation. As complex as had

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[186] Savannah *Republican*, Feb. 4, 1864; Richmond *Examiner*, Feb. 6, 1864.

been the Act of March 23, 1863, in dividing the notes into three classes with reference to the date of issue and prescribing different times and rates of funding, the new act[187] divided the notes on the basis of denominations and demonetized portions by application of progressive taxation.

The compulsory funding was required in four per cent. certified stock of twenty years. All notes above five dollars were allowed this form of exchange until April 1st, east of the Mississippi, and July 1st west of the Mississippi. After those dates the one hundred dollar notes were taxed at 33 1-3% and 10% added monthly. Notes other than one hundred were also taxed 33 1-3%, but could be exchanged from April 1st to January 1, 1865, for four per cent. bonds, with the proportionate deduction. They also could be traded for a new issue of notes at the rate of two for three, but on January 1, 1865, a tax of 100% was to be levied on all the old issue, wiping it out of existence. The five dollar notes had a longer duration of grace, their funding period running to July 1st east of the Mississippi, and October 1st west of the Mississippi; then a tax of 33 1-3% was applied. The seven-thirty interest notes which had been practicably counted as funded, were forthwith converted into six per cent. bonds. Call certificates for notes issued since September, 1863, must be put into four per cent. bonds or lose one-third by taxation.

The four per cent. certified stock in which the old notes were funded was to be accepted in payment of taxes. An exception was made of States which held notes in their treasuries, the limitation of funding being placed at January 1, 1865, and six per cent. bonds given. Since future issues were to be checked the two sources of supplies now provided were certificates of indebtedness, bearing six per cent. and transferable, and non-taxable bonds to the authorized amount of $500,000,000. In view of the tax levied on all government securities by the Act of February 17th,

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[187] Acts of Congress, Statute IV, Ch. LXIII.

the immunity of this obligation was expected to enhance greatly its value and the demand for it. As definite security for the payment of the six per cent. interest a pledge was made of the export and import duties, payable in specie or coupons of the bonds.

Application of the Measure.

The provisions of the Act modified materially the program of Mr. Memminger. All the notes were not peremptorily funded at an early date. A cheaper security was offered for the funding and the new six per cent. stock was not guaranteed by direct taxation. Taxes were to be paid not in the interest coupons of special bond issue, but in the four per cent. certificates, which were both non-taxable and the funded representatives of the redundant currency being retired. But the Secretary set himself faithfully to the administration of the legislation; 112 new depositaries were appointed for one year to aid the refunding. Quartermasters in the armies were selected to discharge similar offices. The old notes were to be cancelled by being cut and hammered at these agencies.

Barely forty days existed for the operations, and in that period it was impossible to prepare the stock and have the new notes issued. Congress had again refused the request to allow the engraving of signatures, and the delay of having scores of ladies serve as signers of the currency was not remedied. A circular appeal[188] was made to 175 banks that they accept certificates issued by the depositaries in lieu of bonds. Their help was further invoked for the adjustment of prices and business operations to the new currency. The Secretary thought if they would advertise to accept the old notes and give credit for them in proportion of $2 for $3, the rating would be established. Bank checks and temporary certificates of the funding were to tide over until the new notes and bonds were issued.

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[188] Treasury Letter Book "E," Mch. 15, 1864.

Panic and Prices.

The publication of the Act of February 17th caused a panic in commercial circles. Prices[189] at once mounted higher. Whisky that had sold for $90 a gallon brought $120. Various dealers would do no business unless they were paid in $5 notes, and an increase of price was demanded equal to the tax of 33 1-3%, to be imposed after April 1st.

Mr. Memminger noted the unfavorable effect on prices of the tax on the notes for which the seller of commodities was bound to indemnify himself in advance. He said[190] that his plan of cutting off all the notes at one time would have made holders of goods anxious to get the notes at their highest rates, and prices had fallen. Now Congress by depreciating the currency had brought the opposite result. Gold quotations rose from 21 to 1 in February to 25 to 1 in March. Many having requisitions refused to present them, awaiting the new issue after April 1st.

Brown's Denunciation.

The legislation was received loyally at first by those[191] who expected a reduction in the circulation of from $300,-000,000 to $500,000,000, yet violent criticism was not entirely withheld. Gov. Brown, of Georgia, led in denunciation in his message of March 10, 1864. He said, "The act has shaken confidence in the justice and competence of Congress. The country was prepared to pay cheerfully a heavy tax, but it did not expect repudiation and bad faith." Georgia was obliged to use Confederate currency, and the tax of the notes would be a direct levy on the State by the national government, which must not be allowed. He advised to accept only the notes at par and then issue a State currency to be exchanged for the new notes.

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[189] Richmond *Enquirer*, Feb. 24.
[190] Letter to J. K. Sass, of Charleston, S. C., Feb. 26.
[191] Augusta *Chronicle*, Feb. 22, 1864; Montgomery *Advertiser*, Apr. 21, 1864.

Progress of Funding.

In the brief period allotted the operations of the funding of the notes made a large showing. A statement[192] of the Register of the Treasury on April 30, 1864, gave a comprehensive view of the currency issues from the origin of the Department which were affected by the Act of February 17, 1864.

Redundancy Theoretically Relieved.

The Treasury report[193] for the period up to the time the taxation on the notes began estimated that $250,000,000 had come in for cancellation, east of the Mississippi. The depositaries observed that only about one-half of this amount was in one hundred dollar bills. The redundancy was figured out by the Secretary to have been relieved in the following manner: $800,000,000 was the amount of the general currency on April 1st. Fifty millions being to the credit of disbursing officers, seven hundred and fifty millions were in actual circulation. Fifty millions were presumed to be funded west of the Mississippi, and

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192	Issued.	Redeemed.	Outstanding.
Act of Mch. 9, 1861, Int.-bearing notes ($3.65), .	$2,021,101	$1,495,150	$525,950
" May 15, 1861, Two years after date, . . .	17,347,955	9,172,580	8,175,375
" Aug. 19, 1861, General currency, ...	291,961,830	141,034,709	150,927,121
" Apr. 17, 1862, Int.-bearing notes ($7.30), .	122,640,000	22,658,100	99,981,900
" Apr. 17, 1862, Denominations of $11, $2, .	5,600,000	1,102,382	4,497,618
" Oct. 13, 1862, General currency, ...	138,056,000		
" Oct. 13, 1862, Denominations of $11, $2, .	2,344,800	26,159,960	114,240,839
" Mch. 23, 1863, General currency.	514,032,000		
" Mch. 23, 1863, Ones and Twos, ...	3,023,000		
" Mch. 23, 1863, Fifty cents, ...	915,758	44,737,957	473,233,322
	1,097,942,963	246,360,838	851,582,125

In this table the redemptions were for worn currency and earlier cancellations, the notes on hand of the last funding not counted.

Of the $973,281,863 non-interest notes, the One Hundred denominations aggregated $318,038,200; the remainder was: Fifties, $188,861,400; Twenties, $217,425,020; Tens, $157,982,750; Fives, $79,090,315.

[193] To Congress May 2, 1864; Caper's *Memminger*, pp. 480-1.

thus with the deduction for notes to be cancelled, there remained in circulation four hundred and fifty millions. One hundred and twenty-eight millions of the one hundred dollar notes were assumed to be unfunded and no longer a medium. Finally the residue of three hundred and twenty-two millions was brought to a minimum of two hundred and fourteen million dollars by the tax of one-third. Provided this vast contraction did not shatter all business exchange, and granted that market values had been fairly and effectively touched, then this splendid result on paper of the currency legislation ought to have restored prices to a healthy condition.

CHAPTER V.—COLLAPSE.

The Second Congress of the Confederate States convened May 2, 1864, under conditions temporarily more[193] hopeful. The winter had not been unfavorable to the Southern arms and the collection of supplies was improved. The currency measures were presumed to have furnished the needed remedy and President Davis[194] said the effect would be the reduction of the circulation to $230,000,000 by July first. After the first rise in specie quotations of paper to 23 for 1 in March, there had been a fall to 20 in April, and 18 in May.

The government[195] expenses for the two preceding quarters were proportionately decreased, though partly because of requisitions held back for the new note issue. The army and navy had cost $249,426,097 in the inflated currency, but the public debt under the provisions for interest and redemption of notes had required one-third of the total outlay of $383,110,559. The past estimates were now seen to be much too great, for the balance on April 1st of $608,000,000 of undrawn appropriations was sufficient to meet the demands of the succeeding nine months in 1864, allowing a rate of expenditure based on fifty-four millions monthly. The reported receipts of $690,000,000 since Oct. 1, 1863, established apparently a large surplus, but a considerable source of this income had been $250,000,000 of four per cent. stock and $39,000,000 of call certificates, realized by the compulsory funding.

The tax of 1863 was credited with $59,400,000, but the

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[193] Pollard's *Fourth Year*, p. 14.
[194] Message of May 2, 1864.
[195] Capers's *Memminger*, pp. 477, 8.

actual resource meeting the half year's accounts had been the unfailing Treasury note.

A LAST ATTEMPT TO LIMIT NOTE ISSUES.

The problem of the new Congress was to satisfy the claims on the Treasury without a speedy recurrence of the condition of over-issue from which legislation had so lately set it free. The note issues were in theory limited to $200,000,000, notwithstanding the statute allowed three dollars of the old tenor to be exchanged for two of the new, a proviso estimated to require $214,000,000. Hence there was a perilous probability of an output that would thwart the projected improvement of inflated prices. As a relief from this danger, the Administration[196] offered the familiar remedies of the past. The public might be diverted from exchanging its old currency for the new by remitting taxation on the four per cent stock into which the notes had also the option of being funded. Requisitions on the Treasury could be met by certificates of indebtedness, taxes and the sales of the new half-billion non-taxable bonds.

The experience of earlier efforts did not promise much for the success of this latest government security. Its coupons, payable for export duties would have little demand under the effective blockade. The immunity from taxation was a small inducement in contrast with the exaggerated values of the period. The[197] advertisements stated that $5,000,000 was to be offered at public outcry in Richmond, May 12, but the business men had then been called to the field so largely to repel Grant's attacks that the day of sale was postponed to June 8th. The Secretary was desirous of securing 50% premium in paper money on the first bids, and, the same conditions prevailing upon the

[196] Capers's *Memminger*, pp. 481-484.
[197] April 19, 1864, in leading Southern newspapers.

second offering at the capital, the place of sale was changed to Columbia, S. C.

There the price was established at 135 in Confederate paper on June 21st, and forty-eight special agents were appointed to handle the bonds. Several million dollars worth were sent abroad and the agent, Gen. C. J. McRae,[198] was told to take six cents in specie on the dollar for them. This foreign offering came to nothing, as General McRae[199] reported that five cents was the top of the market, since the speculators in the South had sent over their holdings at that quotation.

Use of Certificates of Indebtedness.

By September 30th the sales of the Treasury had[200] amounted to $14,481,650, and on February 1, 1865, Congress was[201] informed that $44,517,500 had been taken at par, with a premium of $14,660,000. $30,000,000 of the bonds were used in discharge of public indebtedness, but there was no additional demand for them. The plan to use the certificates of indebtedness met with even less success than the earlier effort to exchange bonds for subsistence. Every inducement was furnished to urge these credit devices, yet the holders of supplies would not take the certificates, nor did the[202] army quartermasters co-operate in disposing of them, so that by September 30th, only $1,740,000 had been placed.

Under such conditions the pressure for the issue of notes proved irresistible by an Administration committed for three years to that financial policy. Yet it was commonly[203] thought that "the paper money machine" had

[198] July 17, 1864, Letter Book "E."
[199] To Secretary Trenholm, Nov. 4, 1864.
[200] Report of Nov. 7, 1864, Treasury MSS.
[201] Letter of Trenholm, Book "F."
[202] To Seddon, Secy. of War, Apr. 25, 1864.
[203] Richmond *Enquirer*, Mch. 12, 1864.

been stopped, as though a legislative act of this date were adequate to prevent further perils from the currency, whatever should be the demands for expenditures.

The Treasury Note Bureau was slow in preparing the issues for which heavy demands were made after April 1st. The army had drawn previously $72,609 per diem, when expenses were $600,000. Holders of old notes succeeded in making an exchange only after long delay. There arose much irritation and the Department was charged with holding back the new notes. Mr. Memminger incurred the blame of this and had to[204] explain the expediency of his instructions to Congress.

Accordingly, the note circulation started again surely on a course of redundancy. On May 31st, $57,000,000 had been paid out, while $200,000,000 were reported as needed. The value of the notes was lessened by the fact that taxes were being paid in the four per cent. certificates, and thus the paper money affected by the repudiation of February 17th could yet be made available. The largest producers, the farmers, were independent of money claims by reason of the tithe, so that the additional currency served as in the past to foster speculation, and the public appraised the first and the second tenor with little difference.

Congress Repudiates Secretary Memminger.

The second Congress was early[205] disposed to adjourn and made a record of irresolution after debate surpassing that of the First Congress. Many currency measures were introduced and agreement reached on none. The Senate voted to reduce the limit of note issue to $100,000,000, in which the House would not concur. In an effort to make

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[204] Question of Congress, May 20, Book "E."
[205] Richmond *Enquirer*, May 31, 1864.

the certificates of indebtedness a chief resource, the Senate alone adopted the provisions of ultimate redemption in specie and payment of interest in notes at a coin rating. This was on the recommendation[206] of Mr. Memminger; but the House declared war on him in a resolution of May 26th calling for his resignation, as follows: "In a Congress entrusted with the control of the currency it is impossible to perform the duty effectually, unless the office of Secretary is filled by some person of high, unquestioned ability as a financier, whose views in regard to important matters of finance, especially the currency, are in harmony with those of Congress, and who is willing to carry into prompt and efficient operation the deliberate enactments of Congress on this subject. The Secretary is thus made responsible to Congress, and, without touching a right of the President, public welfare demands the retirement of Mr. Memminger, not questioning his honesty and patriotism, to be succeeded by some individual of proper ability as a financier and more likely to command public confidence." The motion to table these resolutions was lost by a vote of 37 to 45, and they were referred to the Committee on Judiciary. The report was not made, because it was an open secret that the Secretary would resign at the close of the session.

On June 15th, he[207] asked to be released from his office because there had come an essential divergence in the plans of the Department and those adopted by Congress. He said his action had been delayed by his sense of obligation to put into operation immediately upon its passage the Act of February 17, 1864, but now the machinery for the plans of Congress in finance and taxes was so adjusted, that a new head could readily assume control.

Congress in its adjournment on June 14th had refused to allow the reforms in taxation so strongly urged and

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[206] To the Senate, May 20, 1864.
[207] Capers's *Memminger*, p. 365.

thus continued a policy of unfairness and discrimination. Its attack on the Treasury Department was the opening of its opposition to the rest of the Cabinet and reflected that condition[208], in some quarters prevalent, of a lack of confidence in the President and his advisers.

Treasury Supervision of Blockade Running.

Additional powers were conferred upon the Treasury Department in 1864 for the control of commerce. The previous blockade running had been by private companies, which were commonly required to bring one-third of the importations in government supplies. But by the Act of February 6, 1864, the character of the trade was closely supervised and the entrance of luxuries was debarred, a wide range of articles being designated. A maximum of prices was assigned to manufactured goods of cotton, wool, flax and silk received, and these values were invoiced by the Treasury in coin at the place of export. The further enactment, that one-half of the cargo in and out must be reserved for the Government, caused conflict with several States which were engaged in trade on their individual account. Against many remonstrances the Department held firm, and the Congress of the Governors, debating the restriction, at Augusta, Georgia, was told[209] that the united interest of all was paramount to the particular concerns of one State. Yet, at the close of the year, the concession was made to the States. Cotton was the valuable export that induced various English companies to secure contracts for its shipment.

After the available sterling exchange and coin had been exhausted by Mr. Memminger, he had traded cotton to Europe for the imperative war supplies. The Navy, War and Treasury Departments operated at cross purposes for a time in foreign financial negotiations until by an agree-

[208] Pollard's *Fourth Year of the War*, pp. 75, 76.
[209] To Gov. Bonham, of South Carolina, Oct. 28, 1864.

ment[210], the Treasury assumed direction of handling the cotton and ordered vessels to be purchased exclusively for the purpose. Four[211] boats were at once secured and contracts let for ten others, of which only a few got to sea before the surrender. From July to December, 1864[212], 11,795 bales of cotton, worth $1,500,000 in gold, $45,000,000 in paper, were exported, the Produce Loan furnishing the stock. The Department did not ship as largely as it had planned, being hampered by the contracts with private companies. The trade[213] of blockade runners flourished, 43 arrivals being entered at Wilmington and Charleston in May and June, and 43 again in November. The most pressing army supplies were thus enabled to be furnished.

The Trans-Mississippi Department.

The cutting in twain of the Confederacy caused a separate establishment of the Treasury in Texas and there the Trans-Mississippi Department was created by Act of Congress in March, 1864. P. W. Gray was placed in charge at Marshall on July 1st, and carried on the independent administrative duties of that section. Taxes were collected and the funding conducted, old notes, however, being commonly stamped and reissued in place of the new, which could not be secured in sufficient quantities from the East. The impressment of supplies was conducted by Gen. Kirby Smith and cotton shipments made from Matamoras. The trade from the Mexican port was directed by the Texas Cotton Bureau, which was active to the last. One report[214] from this self-sufficient country was made for the

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[210] March 29, 1864, Book "E."
[211] Bulloch's *Secret Service of C. S.*, Vol II, p. 245.
[212] Trenholm to Senate, Dec. 12.
[213] Cargoes went to Nassau, Bermuda and Havana and thence re-shipped. Vessels were most active in 1863; in 6 months 32,075 bales being carried. From November, 1861, to March, 1864, 84 steamers were engaged, making 363 trips to Nassau and 65 to other ports. Scharf's *C. S. Navy*.
[214] Gray to Congress, Feb. 20, 1865.

quarter of July to October, and showed $95,000,000 receipts against $6,500,000 expenditures; $55,000,000 of the old currency had been retired and $50,000,000 were yet to come in.

Policy of the New Secretary.

The selection of the successor of Mr. Memminger was a guarantee of the continuance of his policy. Mr. G. A. Trenholm, of Charleston, assumed the Treasury portfolio on July 20, 1864. He had been a trusted counsellor of his fellow-townsman in preceding years, and was connected with the firm of John Fraser & Company, which had been the principal agent of the Department in South Carolina, and also was commercially connected with Fraser, Trenholm & Company, of Liverpool, the foreign agents.

Mr. Trenholm began with the Department-honored device of getting deposits of four per cent. call certificates that should be exchanged for $120,000,000 of new notes then in process of emission. He advertised widely and urged persistently the sale of Government securities. A convention of the Commissioners of Prices of the States in session at Montgomery, Alabama, September 2d, was told that the great mass of citizens of every class must buy bonds and nothing else. The exhortation of the Secretary was to stand by the Treasury, but the sentiment of the public found expression in the statement of the Richmond *Enquirer*[215] that no one expects miracles from Mr. Trenholm.

Under appeals for home purchasers, $15,000,000 of the non-taxable stock was disposed of in two months, and twice the amount in the succeeding three months. The certificates of indebtedness were also used to the sum of $30,000,000 and other bonds sold, together with temporary loans placed, so that the Secretary stated[216] he had realized

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[215] Aug. 22, 1864.
[216] To Secretary Seddon, Dec. 31.

$197,000,000 from these various sources. This showing is rendered improbable by a report of the Treasury Note Bureau, No. 10, that it had furnished a total of $120,000,000 of bonds and also by the fact that the issue of paper money was considerably in excess of the amount announced as paid out. However, the activity of the Administration was neutralized by the resumed inflation of prices on to final ruin and by the variety of government securities which speculators hawked about at complex quotations of depreciation.

Proposed Multiple Standard of Value.

The official policy found utterance on the occasion of the report[217] to Congress for the half year ending September 30, 1864. There was frank confession of the failure of the Currency Act of February 7, 1864, attested by the same rating for old and new issues, and a present redundancy, requiring $25 for $1 of gold.

The Secretary proposed to originate a multiple standard of value, founded on the agricultural staples of cotton, corn and wheat. This would bring stability into the financial reckoning hitherto convulsed by the variableness of gold. Heavy taxation was the foundation of the plan and the redemption of notes and funded debt was to be made from the tithes of the three staple products, at prices fixed by legislative act. The pledge of the tax in kind was to extend very resolutely into the years after peace and meanwhile the circulation was to be reduced to $150,000,000 by its proceeds. It is noteworthy that the practicability of the scheme depended upon the adoption of the same recommendations which Mr. Memminger had made, that agricultural property be assessed on the values of 1860 and that the abatements for the tax in kind and the property tax be not allowed.

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[217] Nov. 7, 1864.

The funding operations and the public[218] debt during the six months had required $342,000,000 of the $615,000,000 expenditure over against receipts of $415,000,000. Of the $65,000,000 of the currency that had been impaired by the Act of Congress, there was yet credited to the funded debt $325,000,000. It had been impossible to prevent the continued use of the interest-bearing notes of 1862, nor did the other denominations, excepting the One Hundred Dollar, cease to be accepted with the one-third discount on the first of July and October. Furthermore, by executive direction, on the plea of the discount of the impoverished holders, the absolute retirement of all the old currency was postponed[219] from January to July 1st, 1865.

The money machine continued[220] to operate and it was as impossible as ever to keep within the bounds appointed. The recurring rising tide was marked by the successive[221] issues of $57,500,000, May 31, 1864; $120,000,000, July 1st; $345,000,000, November 10th, and $468,000,000, January 21, 1865. The large portion of the notes was for direct demands, the exchange of the old currency for the new requiring $121,000,000 the first six months.

Final Financial Deliberations.

In the second and final session of the Second Congress, sundry bills incorporated the financial plans of Mr. Trenholm, and President Davis encouraged[222] the Houses with the official opinion that judicious legislation could meet

[218] The aggregate at this time was placed at $1,126,000,000, being only $96,000,000 in advance of the statement of six months earlier. The funded proportion was $738,340,000.

[219] Act of Congress, Dec. 29, 1864.

[220] The Treasury Note Bureau was removed to Columbia, April 26, 1864. The Treasurer was at first ordered to accompany it. Later, July 2, Mr. Elmore resigned and J. N. Hendren succeeded, October 1.

[221] Reports of Note Bureau.

[222] Message of November 7, 1864.

all exigencies of war and prevent a great accumulation of debt. The press[223] demanded a trial of the Treasury program since it could not make affairs worse. The legislators debated as lengthily and differed as widely as in the three winters past, various groups advocating utter repudiation, abolition of tithe, of impressment and quartermasters, and seizure of cotton and tobacco to pay the soldiers.

A portion of the session was devoted to assaults upon the President and the Cabinet. Commissions[224] investigated the Commissary Department to discover that it was entirely without supplies. Arrears of pay had been accumulating for nine months, reaching $180,000,000, and the Quartermaster General reported[225] that the army was paralyzed for want of funds. Desperate conditions did not avert the habitual remedy, but before the Senate joined the House in ordering fresh issues of paper money, the capture of the Note Bureau at Columbia necessitated an inexorable cessation. In the theorizing[226] of the Secretary, taxation was now the sole relief and the dissolving Congress was asked to pass a levy of one hundred per cent. additional to the rate of 1864. After a protracted disagreement of the Houses, a measure was passed on March 11th, which contained the reforms whose advocacy had partly discredited Mr. Memminger. The tax in kind and on income must be paid in addition to an eight per cent. levy on property. All taxes for 1865 were doubled save that of the tithe on the farmer.

Impressment of Coin.

But the practical planning of Mr. Trenholm had been directed to getting possession of the coin remaining in the

[223] Richmond *Enquirer*, November 8.
[224] Pollard's *Fourth Year*, pp. 184-5.
[225] A. R. Lawton to Trenholm, January 2, 1865.
[226] To R. M. T. Hunter, February 20, 1865.

banks and concealed. Secret trade had been allowed[227] with the enemy to secure gold for cotton, and even the States were advised[228] to get the metal within their borders in order to liquidate their portions of the national indebtedness under conditions of vast depreciation. A law of dire necessity came forth in the Act of March 17, 1865, which asked for a loan of $3,000,000 in coin, and if not contributed, a tax of 25 per cent. was to follow before April 1st. As security for the loan 50,000 bales of Government cotton were hypothecated. Virginia furnished the gold and the money[229] was used to pay the troops in the rating of Treasury notes at 60 for 1.

The utter collapse of the Department was confessed by the call for donations from the citizens of the Confederacy. Joint resolutions came from Congress and the Secretary gave official utterance, March 20, 1865, that the Treasury being straitened, it is deemed not incompatible with the public dignity to accept the free-will offerings of a generous people. The final receipts were acknowledged and recorded in family plate, church vessels, jewels, ornaments, rings and personal effects.

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[227] To T. D. Wagner, of Charleston, January 10, 1865. Book "F."

[228] To Chairman F. S. Lyon, January 16.

[229] Secretary Trenholm encouraged Judge Gray, of the Trans-Mississippi Department, by his advice of March 17, to continue financial operations. When the Government moved from Richmond southward, at Danville, Va., the gold was drawn on at the rate of 70 to 1 to pay the army. Mr. Trenholm being left ill at Catawba, S. C., the last executive deed of Mr. Davis was the appointment of J. H. Reagan, P. M., as Acting Treasurer. The fund in coin then was $228,022, which was paid over to the soldiers, the navy and the agents at Washington, Ga., May 4. Southern Historical Society *Papers*, Vol. IX, pp. 542-558.

CHAPTER VI.—COMPARATIVE FINANCIERING.

The similarity of the Revolutionary and the Confederate financial history is commonly observed in the vastness of the depreciation of the paper currencies. The causes of this condition were in some degree the same, while the state of the circulating medium made necessary like methods of correction and the adoption of analogous substitutes and experiments. There was the cycle of early resort to paper money, regular and finally rapid additions to the issue, limitation of prices, assessment of taxes in kind, impressment and repudiation. Yet in the details and the results of the operations, the experiences of the two governments are by no means parallel.

The emission of bills of credit was largely under different circumstances. The colonies had been familiar with the use of paper money and, though the practice had not been engaged in with unvarying honesty, the demand for a continental issue was general and was urged[230] on Congress by the people. In the Southern Confederacy many mediums of exchange had been prevalent, and the bills of many systems of banks were used. Specie payments having been suspended early in 1861, the plan of establishing a Government currency was the conception of the Treasury administration for the express purpose of replacing the circulation of the various financial institutions.

The Two Floods of Paper Money.

The first issue of $2,000,000 on June 22, 1775, was expected to be sufficient; at least, the subsequent amounts would be small and rigorously limited. Protestations prefaced each grant as the sum of notes at more frequent intervals grew larger. The first Confederate issue of $1,-

[230] Bolles' *Financial History*, Vol. I, p. 37.

000,000 on March 9, 1861, was appointed to furnish immediate funds, but the decision of May 16th to emit $20,000,000 in notes indicated a purpose to employ this form of credit extensively. The initial calculation was to displace half the circulation of the banks, then the whole amount, and next to have a moderate increase over what the country had actually required in business. Legislative bounds were touched and lifted again until the national money making was entrusted[231] to the discretion of the Secretary.

The record[232] of the Continental currency inundation was $6,000,000 in 1775, $19,000,000 in 1776, $13,000,000 in 1777, $63,000,000 in 1778, $140,000,000 in 1779, total $242,000,000. In the South the figures approximately were $96,000,000 in 1861, $329,000,000 in 1862, $525,000,000 in 1863, $600,000,000 in 1864, total $1,550,000,000. Five-sixths of the Revolutionary issue came in the fourth and fifth years of the war; three-fifths of the Confederate issue was uttered in the first three years. At the end of the periods named the two governments had practically ceased to print their bills, since they were worth little better than nothing, the quotations of each currency being quite similar, between 40 and 60 to 1 of specie.

Repudiation, Partial and Complete.

However, the more accurate dates of comparison are those of the legislative acts of March 18, 1780 and February 17, 1864. The Continental Congress was guilty of direct repudiation, though it had expressly denied[233] that it would proceed in "wanton violation" of the pledges of the United States. It ordered the old tenor to be exchanged for new at the valuation of 40 to 1, and the second issue was to be limited to $10,000,000. The enactment of

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[231] Ante, Chapter II, sub-head, "Final reliance on paper."
[232] Phillips' *Continental Money*, p. 198.
[233] Address of Sept. 13, 1779.

the Southern Congress was not a complete repudiation. For six weeks the currency could be transformed into interest-bearing stocks, and then only one-third of the notes was progressively taxed out of existence, while the larger portion was to be rated at three to two of the new issue for a period of nine months.

The relative stages of the results of the two statutes were dissimilar. The second Continental tenor ran a headlong course, passing at once, 2 for 1 of hard money; then in 1781 at 4 for 1, and next vanishing. Pennsylvania[234] State money had been quoted at 3 to 1 of specie, and when the Continental was commercially published at 175 to 1 of specie, the public in its calculation substituted the State notes as the measure and killed the emission of Congress by a listing of 525 to 1. The guarantee of this last money had been, as of the early notes, the illusory pledge of the faith of the United States, not yet confederated, and the statutory valuation was notoriously out of accord with the market[235] acceptance of the old tenor, 60 and more to 1.

The Confederate Congress attempted no valuation of its past issues other than three dollars of the old tenor for two of the new, but since denominations of five dollars were not taxed at once after April 1st, 1864, depreciation increased for a month, then was followed by a period of slightly improved quotations. March conditions of the currency were not reproduced until October, although the proportion of exchange for gold was so exaggerated that the relief was practically trifling in degree. The scales of the lessening worth of the paper mediums of the two wars have marked resemblance.

A Common Worthlessness.

In Revolutionary times, within two years of the first issue, the quotation was 2 of paper for 1 of specie; by the

[234] Sumner's *Financier of the Revolution,* p. 95.
[235] Bolles' *Financial History,* Vol. I, p. 94.

close of 1777, 4 to 1, and in 1778, a variation between 4 to 1 and 6 to 1. The year preceding repudiation, the redundancy was measured by $41 of paper in December required to purchase what $8 had secured in January.

Likewise the depreciation of Confederate currency from a discount of 20 to 300 per cent. during 1862 passed to the ruinous fall in the third year of 19 of paper for 1 of gold. After the temporary checking of 1864, the stress of need and disaster restored the retrograde tendency and the drop from 20 to 40 for 1 was the record of a few months. So then the quotation of 60 to 1 in March, 1865, on the eve of dissolution was no less than the market estimate of the notes, which the First American Congress voted to exchange. Public opinion of these contrasted periods would have shaken off the inexorable standard of hard money. The Penn *Packet* of February 16, 1779, proclaimed that land, not gold nor silver, subject to monopoly, was the true measure of value. The Richmond *Sentinel* of August 23, 1863, argued that gold was not a standard for the South and suggestions from many sources were persistent that cotton or land should be substituted. Each government had its currency counterfeited by the enemy. No estimate can be given of English importations. Upham[235b], of Philadelphia, placed the value of his Confederate fac-similes at $15,000,000, alleging that they were issued to satisfy curiosity, not as forgeries. But New York firms took his designs and Jew brokers carried the issue South.

Inefficient taxation was a common fatal fault of these two governments and the legitimate cause of the currency disasters. The united colonies could not demand of themselves that which they had denied England. The representatives of the Southern States would not lay on the people burdens in the season when they had proven the lightest.

[235b] Lee's The Currency of the C. S. A., p. 24.

The Slight Aid of Taxation.

General advice and then earnest recommendation to the States in 1777 to apportion $5,000,000 in taxes were the strongest measures open to the Continental Congress. The belated collections of the tardy levy yielded by September, 1779, $3,000,000, a sum equal to one-sixtieth of the note issues. The fiscal policy of Robert Morris was based on taxation, yet with all his insistence and the modest requisitions of Congress, the returns in three years, to November 1, 1784 ,were $2,000,000 in actual value. There was no executive power to compel the payment of taxes in the nascent American nation.

On the other hand, the ample authority of the Confederate States was not used with a largeness and a promptness demanded by its needs. After a tax levy within six months of the organization of the government, a year elapsed before the Treasury had received[236] slightly more than half the assessment. It was eighteen months after these receipts before the returns of the second and heavier tax were appreciable. The presumed vigorous system of taxation with its countervailing rebates was applied in the last year of inflated values, when total avails of $101,000,000 are correctly estimated upon being divided by 20 or 30.

In the face of the final paper money issues and because of an unresponsive public, the Revolutionary Congress of December 14, 1779, called for specific supplies and apportioned to the States amounts of flour, corn, oats and tobacco. Much produce was secured, notably in Virginia, but the device[237] lacked administrative direction, so that supplies rotted and were not transported because of expense. The tax in kind of the Confederacy was introduced to enable the farmer to pay most easily his share of taxa-

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[236] Ante, Chapter II, sub-head, "Delays in Collection."
[237] Sumner's *Financier of the Revolution,* I, p. 154.

tion. Large collections of the products were wasted, their control was not well centralized and by reason of the impaired transportation the tithe afforded a national service relatively small to the burden on the people.

Compulsory Contributions.

Again, impressment of supplies for the army was common throughout the war with England, beginning in New England in 1775; frequent in Pennsylvania in 1778, and severe in Virginia in 1781. The vexations common to it in that period were reproduced in the South, where impressment began in 1862. The schedule of prices appointed by the commissioners of the various States for seized products did not remove objections, and at last certificates of indebtedness were forced on the public in some sections for their supplies. Often the payments allowed were notoriously less than the market quotations, thus arousing the resentment of the planter class. Price conventions during the Revolution were the constant resort of the States to urge the use of a money they had already made a legal tender. Schedules[238] of prices were adopted in futile effort against depreciation, Congress recommending in 1779 that they do not exceed 20 fold those of 1774. The Confederate Congress never enacted a law of maximum prices for trade in general though Virginia persistently urged it.

In the fiscal resource of loans a contrast of practice and conditions in the two Treasury Departments is to be observed, for the results were as widely different as the attendant realities of national triumph and defeat. The loan was an early experiment of the Revolution, $5,000,000 being invited in 1776. Loan office commissioners were placed in each State and fair returns secured.

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[238] Bolles' *Financial History*, I, pp. 159, seq.

Success and Failure of Foreign Loans.

But when France in 1778 agreed to pay the interest on the loans in specie, a guarantee was afforded that caused subscriptions to aggregate $60,000,000 by 1782. These loan office certificates were not used by Robert Morris, but the timely aid of Louis XVI. had begun the salvation of the Treasury. To the 18,000,000 livres of France were added the first installment of 1,500,000 gulden of the Dutch loan in June, 1782, and the financial crisis had been passed.[239] When the paper money was reformed by law in 1780 and banished by commerce, a providential supply of a medium was furnished by specie from the West Indies and the European loans, enabling the master financier to bring stability out of ruin.

In the Confederacy, commissioners placed largely the Fifteen Million Loan of the first year. The depositories then served as agents of the Treasury, but the loans went slowly, the One Hundred Million being taken after two years by exchanges for cotton, subscriptions of the Produce Loan and funding operations. Other stocks sold slightly, for the guarantee was a substratum of cotton under limitations not attractive to the public. The Erlanger loan was well conceived and the risk of getting cotton through the blockade the only uncertainty. However, the proceeds of $7,500,000 did not strengthen the financial system, but were applied to the purchase of foreign war materials. The large proportion of the stocks and certificates represent the loyal support of the citizens in the various funding struggles to remove the incubus of Treasury notes that eventually overwhelmed all.

Skillful Rehabilitation vs. Lack of Initiative.

There is no common basis for estimate of Robert Morris and C. G. Memminger. The Treasury of the United States

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[239] Sumner's *Financier of the Revolution*, I, p. 58.

was under the direction of a Board of Administration until 1781, when Mr. Morris was installed as financier. Then the Government currency had disappeared and foreign specie was furnishing the standard of circulation. The Bank of North America was organized as an efficient aid of the Treasury, furnishing in loans five times the sum invested. The commercial credit of Robert Morris personally counted for much, and he employed every device of discount and bill kiting until the immediate national obligations were balanced. Therefore his biographer can say[240] that favorable bookkeeping extricated him, for he did well not with reasonable means, but much with nothing. On the contrary, Mr. Memminger, having direction of Confederate finances in the beginning, might have dictated a sound economic policy to a Congress which later would not yield him leadership. He invoked the plague of paper money, which he could not remove. No real foreign aid came to his entanglements, nor did the Treasury hold practical commercial relations with the financial institutions. Resources depleted, a second tide of notes rising, variance with the legislative body brought the retirement of the Secretary.

The expenditures[241] of the Revolutionary War were $92,485,693, of which sum $83,135,000, specie value, went out before 1781. The note issues may be regarded as a tax unequally borne during the years of most active operations. The expenditures of the Confederacy, to October 1, 1864, may be approximated on a specie basis at $510,000,000, but the burden of the notes is evident in the last year, when the one billion outlay, on a currency valuation, shrinks to fifty million dollars, the average inflation being twenty fold.

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[240] Sumner's *Financier of the Revolution,* II, p. 131.
[241] Treasury *Report* of 1790.

Loan Policy of North and South.

A more pertinent comparison is that of the financial policies of the North and the South, parties to the same conflict. The sections having a common fiscal training, interesting analogies occur in the measures of anticipation, the programs, and the readjustments to vaster emergencies. The period produced a new national conception of taxation, and an extreme application of the loan policy was made, helping to the destruction of one government, while the same fate was averted from the other only by radical remedies and the favorable fortunes of war.

The nature and form of the various Treasury operations of the North and the South were largely shaped by the respective Secretaries of the Departments. Each came to the position with a legal and legislative, rather than a commercial training. One was led by his Congress into a vigorous policy, the other was not able to get his belated recommendations adopted in their entirety and severity. There was a common failure to appreciate the size of the war and a tendency to employ temporary measures. Both Mr. Chase and Mr. Memminger looked to loans as the adequate resource for deficit financiering; then after the failure of the policy, they desperately demanded heavy taxation. The Federal Congress of July, 1861, was asked for an increase of only $20,000,000 above the ordinary tax, while the loan was fixed at $240,000,000. The banks came to the support of the first loans in each section and then in turn they were driven to suspend specie payment. In the North, this result came from the drain[242] of coin into the government vaults; in the solidly solvent portion of the South, it was[243] demanded in order to give a clear field for the Treasury note circulation.

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[242] Bolles' *Financial History*, III, p. 34.

[243] Ante, Chapter I, sub-head, "Loyalty of the banks and capitalists."

Narrow Vision of the Secretaries.

Mr. Chase planned in 1862 to replace the banknote circulation of the North with a national currency, and his modified program found expression in the Banking Act of Feb. 25, 1863, which, however, required two years before being fully operative. In contrast with the large use by the South of the government issue, the North persisted in accepting the money of the private banks, these being more favorably rated than the greenbacks. The first emergency medium of the North, $50,000,000 of demand notes, non-interest bearing, was paid in the fall of 1861 to a very reluctant[244] public. The purport of the messages of the two Secretaries to the respective Congresses after several months of the war was the same. Mr. Memminger affirmed that note issues were the chief revenue contemplated and all measures were for an emergency of limited duration. Likewise, Mr. Chase spoke with uncertainty,[245] discussing government paper disparagingly, yet debated whether to have specie or paper as the basis of his system.

Loans were not being placed, so the Federal Congress took the initiative Feb. 25, 1862, resorting to notes with the legal tender quality. Thus the law of the North induced an acceptance which the devotion of the South accorded without compulsion. Within a year the authorization of greenbacks was $450,000,000, while the note issue of the South for about the same period was $329,000,000. When the third appointed limit to irredeemable money was reached, Mr. Chase employed in 1863 interest bearing notes quite like Mr. Memminger had done[246] in 1862. The Federal Treasury also secured a large acceptance of certificates of indebtedness, placing $160,000,000 by June 30, 1864, at which period the Confederate Administration began to urge in desperation this form of temporary loan.

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[244] Hart's *Chase*, p. 223.
[245] Sumner's *American Currency*, p. 193.
[246] Ante, pp. 29, 31.

NORTH HELPED BY LOANS OTHER THAN CURRENCY.

But the radical distinction of these two financial histories is that the North decreased its note issues, developing after two years, auxiliary revenues from bond sales and taxation. The loan of $150,000,000 in 1861 consisted of seven thirty notes and bonds. But in 1862 Mr. Chase sold few U. S. stocks, because he refused all offers below par, just as Mr. Memminger persisted in doing. However, the loan of $900,000,000 in 1863 became a popular[247] security, and was floated by the thorough business methods of Jay Cooke. Later, when the Secretary managed a new security, his conditions of offer checked its success. Although the currency was increased in order to promote the sale of bonds, multitudes of people were productively employed by the demands of the war and constituted a body of investors, not similarly existant in the South. Mr. Memminger's efforts to sell bonds were made in 1863 and 1864, but the responses were very meager, the public being blamed for complete absorption in speculation. Commercial institutions as agents rather than the depositories might have operated to better advantage. Mr. Trenholm early in his term had to admit[248] the apathy of the planters to all inducements.

The chief utilization of Confederate bonds and securities was in the funding system, which had its affinity in Federal theory, although the Northern practice of it was not so great contemporaneously. The seven thirty notes of 1861 could be funded into eight per cent. U. S. Stock and the certificates of deposit, exchanged for notes, were employed by Mr. Chase from 1862 on. But instead of forcing these certificates of deposit into permanent[249] loans as in the South, they were redeemed on one occasion to the amount of $50,000,000 in order to relieve the currency stringency.

[247] Bolles' *Financial History*, III, p. 109.
[248] Letter Book "F," Sept. 5, 1864.
[249] Ante, Chapter IV, sub-head, "Clash of views."

Two identical funding measures were prescribed about the same time. The Confederate Act of March 23, 1863, limited the conversion of notes into seven per cent. stock to August 1st, while the Federal Act of March 3d, declared the privilege of funding previous note issues would end on July 1st. These legal tender notes continued to be used by the North and other bonds being sold at this period for notes, the limitation was less felt and later repealed. Yet the act checked funding and is thought[250] to have delayed the resumption of specie payment. The Southern Congress did not revoke its limitation of the funding contract, but advanced to more violent measures in the following year. The funding system which the biographer[251] considers a chief trumph of Mr. Chase was effective in absorbing temporary loans largely in the year of peace and after.

Another financial analogy is found in the record of taxation introduced with the same delay to each section, but developed with widely divergent results. The taxes of 1861 of the two governments were levied according to the schedule of the old U. S. system and were assumed generally by the respective States of the North and the South. The Federal tax of $20,000,000 was lessened by a fourth by reason of apportionment to the seceding region and slight returns were made in either country within a year. In his plans for 1862, the Northern Secretary apologized for the amount of taxes named, although the New York Chamber of Commerce called for a sum three times as

large. The first real Federal tax law of July 1, 1862, laid the foundation of the internal revenue system, besides assessing incomes, occupations and transactions. A tax

[250] Knox *U. S. Notes*, p. 138.
[251] Schucker's *Chase*, p. 407.

commissioner was appointed, but the administration[252] of the complex measure was inevitably faulty and the returns very slow, $37,000,000 being received in ten months of 1863. Mr. Chase awaked to the need of taxation and urged in December, 1863, an excessive levy to offset the vast indebtedness. The third measure of the North was the act of June 30, 1864, which doubled the previous assessment and caused the receipts of that year to double those of the preceding.

No imperative initiative to taxation having been taken by Mr. Memminger in 1862, the Southern Congress was excused in postponing the crude and unpopular measure considered. But this Secretary also changed the spirit of his recommendations and, backed by popular clamor,[253] demanded a comprehensive tax system, which was answered after a fashion by the legislation of April 24, 1863.

Mr. Memminger was thence to his retirement in conflict with Congress urging a more efficient measure through a tax on property, and correction of the method of rebates and valuation. Besides, with all vigilant collection, the laws were highly susceptible to evasion, so that Secretary Trenholm had to say[254] that the taxes of 1864 were practically nothing. To the contrary, in the North there was a large increase, the record of revenue, internal and customs, being $112,000,000 in 1863, $264,000,000 in 1864, $333,000,000 in 1865.

A Vast Fiscal and Economic Inequality.

The disastrous year in Federal financial history was that of 1864, when the depreciation of greenbacks fell from 155 in January to 270 in July. Mr. Chase had poor results in floating a new loan and political reasons arising,

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[252] Howe's *Internal Revenue System*, p. 60.
[253] Ante, Chapter III, sub-head, "Tax act of April, 1863."
[254] To T. H. Ivey, Lynchburg, Va., Jan. 18, 1865, Letter Book "F."

he resigned. The two Treasury Departments had new Secretaries at the same time, and the Richmond *Enquirer* of July 22, 1864, said that Trenholm and Fessenden start under equal circumstances, with enormous debts, immense issue of paper money, heavy taxes, no real money and little credit.

However, taxes were coming into the Northern Treasury at almost a million dollars a day, military successes improved its credit, and Mr. Fessenden succeeded in making various loans which culminated in the sale of $600,000,000 of the Act of March 3, 1865, in seven thirty notes. Mr. Trenholm placed bonds better than his predecessor, but the excessive depreciation of the period multiplied the ratio of expenditures, and though the form of tax gathering in the uninvaded districts was continued to February, 1865, the inevitable financial ruin was consummated.

The public debt of the North on March 31, 1865, was $2,366,955,077, of which there was funded $1,100,361,241. The last Confederate showing of Secretary Trenholm up to Sept. 30, 1864, made a debt of $1,126,381,095, of which was approximately funded $738,340,090. Yet in this statement $649,000,000 of Treasury notes in addition were repudiated, being called in for cancellation. The gross expenditures of the North from June 30, 1861 to June 30, 1865, were $4,655,000 000. If the value of the tax in kind of the South, the unpresented claims, and the various donations were counted, it is probable that the Confederate outlay would have reached $3,000,000,000, paper valuation. Of the $3,264,000,000, current expenditures of the North, it has been estimated[255] that depreciated currency contributed $600,000,000. If an average annual discount of 15% in 1861, 200% in 1862, 500% for nine months in 1863, and 2,000% in 1864 to September 30th is allowed, the increase of Confederate expenditure by reason of paper

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[255] *Journal of Political Economy*, March, 1897.

money is $1,590,000,000. This currency by no specious reasoning can be considered a tax as was the wont in Revolutionary times, for it more than doubled the cost of all outlay. It produced irritation and unreality which ended in a public sense of helpless entanglement. It was thus a forerunner of the military vanquishment. The operation of relentless economic law was in the main vaguely comprehended, but not a few were convinced that somewhere fatal errors had been made by the authorities.

CHAPTER VII.—LIMITATIONS OF THE TREASURY.

Political differences in the interpretation of the Constitution of the Republic led to the Civil War, but other differences, economic and social, distinguished the sections. As parties to the conflict, twenty-two States with 22,000,000 population were arrayed against eleven States with 9,000,000, of whom 3,500,000 were slaves. The wealth of the contestants was quoted[256] in the valuation by counties of real and personal property at $12,230,000,000 against $6,740,000,000, and in the rating of improved land for agriculture at $4,865,000,000 against $1,780,000,000. In the assessed value of property per capita nine of the Southern States were ranked between third and sixteenth places in the total of thirty-three.

In the various products of the field, the showing of the North and South for 1860 was 556,169,962 bu. of corn against 282,626,778; 141,663,098 bu. of wheat against 31,441,826; 13,119,169 tons of hay against 709,997; 3,560,032 bu. of peas and beans against 11,501,936. The valuation of the live stock was $707,550,000 against $381,778,000. The staples of the South were represented in 5,196,000 bales of cotton, 357,500,000 pounds of tobacco, 302,000,000 pounds of sugar and 187,000,000 pounds of rice. In the total marketable worth of the agricultural products of the sections there was not the same disparity shown as in the relative yield of some of the competing products.

Industrial and Monetary Weakness.

But in relative strength of the manufacturing, mineral and commercial resources, the South had excessive limitations. The capital invested in manufacturing in the North

[256] *Eighth Census*, U. S.

was $993,881,130, having a product worth $1,700,330,395, while in the South the sum was only one-tenth of this, $95,-974,585, with an output of $155,531,281. The volume of the iron industries was in the proportion of $48,346,803 to $3,412,022, and the amounts of coal mined were 13,648,-182 and 649,760 tons respectively. The lengths of the railroads of the sections were 19,022 and 9,897 miles. In the financial statistics the odds were heavy against the Confederacy, which possessed only 221 banking institutions with a capital of $92,048,159, in comparison with 1,421 banks of its opponent, capitalized at $329,841,836.

The ratio of capital and deposits in the South was small in proportion to the other forms of wealth of the section itself; besides, the deposits of $47,204,111 equaled barely a fifth of the money so held in the North. There was a scarcity of specie from the first, the total return being $27,-200,000. Of the specie, the banks of New Orleans held two-fifths, as well as two-fifths of the aggregate deposits. This city had been one of the soundest commercial centers in the United States, for in the panic of 1857 but four of its nine banks suspended specie payment for a brief time. The loss of this financial base was a severe blow to the Confederate Treasury, especially as it had recently aided in the first payment of government interest in coin.

The Vague Security for Paper Issues.

There was a common expression by public men throughout the most of the war that the wealth of the land was to be measured simply by the money paid for its products by other countries. Conditions had changed and the economic isolation of the period was more severe than before the war, when by deliberate choice the South was not industrially self-sufficient. The blockade of the sea was effective to a degree that fatally weakened the section. Back of the Confederate currency and loans were not vast quantities of cotton and tobacco. Of the 3,849,000 bales of

the cotton of 1860-1,[257] all virtually had been exported before a paper dollar was voted by Congress. Of the estimated crop of 2,000,000 bales in 1862, about one-fifth was presumably subscribed to the Produce Loan, yet actual collections and direct purchases realized in three years only 430,000 bales, of which 300,000 were pledged against the Erlanger loan. There was for a financial system an undoubted foundation of material value, to the extent of the fruitful return of an agricultural economy, in the form of assessments on the fundamental capital of the nation. Yet there were not such industries created by the war demands as in the North, which by a reflex power could yield their share of the enlarged support of the government.

Unacquainted With Value of Taxation.

The subject of finance had been little regarded by Southern statesmen on account of their concern for political and constitutional questions. There was no adequate training by any previous acquaintance with financial operations of the government at Washington for the public men of the Confederacy who had to direct the vast preparations and expenditures of the four years. Heavy taxation was then an unknown experience to an American. The several messages of President Davis devoted a relatively small portion of space to the discussion of fiscal affairs.

Again, the several States competed with the Confederacy in demanding of the citizens subscriptions to the various loans for their individual purposes. On the proposed purchase of cotton, the Richmond *Examiner* had[258] said it would be a vast Federal stretch of power. Any opposition, however, to the national right of taxation was slight, except in the case of the tax in kind, which received bitter

[257] Capers's *Memminger*, p. 356.
[258] Oct. 12, 1861.

condemnation from several quarters. Georgia particularly through its Governor, Joseph E Brown, clashed with the Treasury Department in its revenue and currency measures. South Carolina had independently laid a prohibition on exports, but removed[259] it. The States being engaged in commerce on their official account resented the trade regulations of 1864, pre-empting half of the shipments for national purposes, and at the very last they regained their privilege. In the main, the States displayed a laudable rivalry in meeting the formal demands of the Administration.

Confidence Affecting Credit.

The credit of the government obligations became noticeably impaired in 1862, though the issue of interest bearing notes made the depreciation stationary for the summer. Later, it was affirmed[260] that distrust arose not concerning the Confederacy, but from the superabundance of currency, for all knew that tenure to any Southern property at all depended upon the maintenance of the nation. Yet in those days the opinion[261] was uttered and thought to be gaining credence in Richmond that the cause was lost. The failure to induce the States to guarantee a new form of bonds was a blow to confidence and the funding legislation quickened the decline in quotations of currency values, so that Mr. Memminger in July, 1863, spoke of one more year being assured to the Treasury, provided current measures were executed. But the fortune of arms was the supreme arbiter of credit and after the disasters of July, it was not long until the national finances were hopelessly shattered, the currency manipulations completing the condition.

If unfavorable tide of battle was reflected in the esti-

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[259] Apr. 21, 1862.
[260] Richmond Examiner, Oct. 22, 1862.
[261] DeBow's Diary. DeBow's Review, Vol. III, p. 549, N. S.

mates of the nation's financial integrity, the military resources were in turn impaired by the inefficiency of the Treasury provisions. The Quartermaster General[261b] declared to the Secretary of War that since the first of 1864 credit had been injured by the lack of finances. More especially, the industrial limitations of the South necessitated desperate efforts[262] to furnish in part munitions and arms, which the Administration endeavored to supplement from abroad.

Loans Confined Largely to Currency.

The foremost and fatal limitation of the Confederate Treasury was the introduction and maintenance of the loan policy. This plan of financiering was due to a lack of political foresight and the arrangements for revenues contemplated an emergency system solely. The theory of credit was blindly optimistic and deprecated an appeal to the sources of income, best available at the beginning. The resort to loans was the easiest method of raising funds, but it was the most unfortunate in the instance of a country so completely isolated and inevitably compelled to devote all in sacrifice to the cause. It was an effort to project payment into the future, which if met would have been vastly more costly than in the present.

When this loan took chiefly the form of borrowing the circulating medium of the people and additions continued to be made to the currency without any regard to the needs of exchange, there were possibilities of failure that were appalling. There were few enterprises open for employment of the superabundant notes, and the public

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[261b] Southern Historical Papers, Vol. 11, p. 86.

[262] A remarkable development of material resources under stress of war was that of the Ordinance Bureau under Gen. Josiah Gorgas. He created powder mills at Augusta, armories at Richmond, Rome, Fayetteville and Selma and various arsenals, mining, founderies and nitre manufacture were conducted, and by 1863 a large share of the ordinary equipments were furnished.—Gorgas' *Monograph*, Southern Historical Society, Vol. XII.

turned to speculation as an outlet, creating fictitious values within a circumscribed trade. The first sale of bonds was thought to have exhausted disengaged capital and this form of loan was not actively pushed again until the full flood of paper money yielded unmistakable signs of wreckage and commercial disaster. Then with the rates of depreciation prevalent, the bonds were not inviting investments; compulsory funding also operated as a deterrent to direct sales in the final years. The Produce Loan in its original plan was a failure, because it required the sales of products to be exchanged for bonds. There was no market, so the subscriptions of cotton had to be taken direct for the securities and the government gained by purchase the staple it had refused in 1861 to handle.

Landed Interests Prevent Taxation.

Several causes contributed to the failure to employ taxation extensively as a source of revenue. There was experimental ignorance of its real importance as the foundation of a system of deficit financiering, and it was not unequivocally demanded by those in authority. Congress lacked the courage to place the definite burden on its constituency. The constitutional objection served as a pretext of postponement, for in the provisional instrument of government there was no apparent limitation. The successive tax measures show a disinclination to make a comprehensive, rigorous requisition of the people. The first enlarged taxing spared real property and fell on incomes, occupations and sales. The greatest hindrance to an adequate measure was the agricultural class, which in the amendments of 1864 inserted the conditions which nullified the value of the direct levy by the rebates for tax in kind and for income, in addition[263] to the discriminating

[263] Ante, Chapter III, sub-head, "Criticisms and defects."

valuation in favor of the land. At the same time, the banks and the merchants were heavily assessed, but under such conditions that many of the latter class practiced evasion. In the final receipts of the bureau, the cities and towns are exclusively the contributors. When revenues were finally realized in 1863-4 directly from the substance of the country, the financial status of the nation was so impaired that the taxes had in specie a worth of six, then four cents to the dollar in paper.

The Legislative Failure of the Second Year.

The opportune time for taxation in the Confederacy was in 1862. Yet with the message of President Davis affirming the high credit of the nation, addressed to Congress in February, it would have been difficult to bring that body to a revenue enactment. However, when the proposition was postponed in October, depreciation was pronounced and increasing, a situation certain to have been modified by resolute action six months earlier. Even a tax ordered at the later date would have brought a degree of relief before the untoward influence of the military reverses of 1863 was felt. In the North, the readjustment of industry counseled a late resort to taxation; in the South, the first and the second years could have been used most efficaciously. The loyalty of the people would have responded to a fearless, positive demand and the cost to the people would have been no more than actually borne in the latter tax in kind. The tax in kind was the device of a dire emergency, but it required a degree of supervision that was scarcely to be furnished and the chance estimate [264] of the realization of products worth $40,000,000 out of a contribution of $130,000,000 indicates its expensiveness.

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[264] Stephens' *War Between the States*, Vol. II, 569.

The Censure of Secretary Memminger.

Upon the resignation of Secretary Memminger the Richmond *Enquirer*,[265] the Administration organ, said Congress had produced the causes of the financial failure and the recommendations of the Treasury Department had never been adopted, so it was not responsible for the results. The variance of the legislative body and the Secretary had grown intense, but in earlier years the relations had been more harmonious. Mr. Memminger certainly is responsible for the failure to present a large, comprehensive plan of national finance in his recommendations of the first year. His estimates were small in comparison with the needs, and his anticipations of foreign aid held him from the large action that would have brought future security. The President seems to have seconded the successive suggestions of his cabinet officer and originated no solution of later monetary difficulties. In the crucial year of 1863 he did not yield to an appeal to call Congress in special session, while market valuations were ruinously advancing from May to December.

After the nation was financially involved, Congress failed to do its duty and the consideration of revenue measures was always postponed to the very close of the sessions. In the main the recommendations of the Treasury Department were carried out, Congress being deterred by its influence from the purchasing of the cotton crop, and from making a legal tender of the paper money. The Houses adopted the earlier funding suggestions, but it was the agricultural influences that finally brought the rupture in the contest over heavy general taxation.

Late Economic Wisdom and Helplessness.

Mr. Memminger must be commended for his late but courageous fight to establish adequate taxes, but his treat-

[265] June 20, 1864.

ment of the note redundancy proved his helplessness to avert its evils. He had in the beginning sounded the dangers of over issue, yet had gone the full length, and at the end with a new tenor emerging, he urged that legislative fiat set a limit to the amount. It was thought that he did not have proper conception of the sums he handled and it was told[266] as a joke in Congress, that in speaking of the debt he had said it was eight thousand million or eight hundred million dollars, not being certain which. He had a firm faith in his funding devices and believed that a change of percentage could call in large sums of notes at a time when all values were paralyzed. His last large form of bonds had as a chief inducement that they were non-taxable.

It was a remedy of desperation to propose the retirement of all the notes in 1864, and it was proclaimed as though values would thereby be restored. But previous changes of the loan contracts with the public had prepared the Secretary for a sweeping measure. Had Congress consented the result in the end would have been little changed. Faith was already largely shaken and the gradual retirement of the notes did not lessen the general distrust.

The North by paying its interest faithfully in specie preserved at the worst a measure of confidence. The Continental finances were conducted with foreign coin after the paper money was repudiated. But there was no coin available in the South to furnish a basis for a new venture, and the taxation ordered for the year was payable in the certificates issued for the notes, being funded under penalty.

No Contribution to Paper Money History.

The persistent practice of the Treasury then was to rely upon the issue of government paper to meet national ex-

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[266] DeBow's *Review,* Vol. IV, p. 531.

penditure, and the history of paper money has been in no way altered by the experiment of the Confederacy. The influence was disastrous upon all the activities of the government and of the land. It induced speculation, which corrupted business morality. In the excessive redundancy all values were permanently distorted. Industries were increasingly crippled, transportation companies were unable to make repairs, farmers evaded sales under impressment, and the products of the country were decreased. The Confederacy had been progressively prostrated. The resources for the army had all but failed. The money machine was operated until it fell before the same military might which was bringing an end at the capital. And the soldiers, who had borne the brunt at the last received not the discredited money of the nation, but the coin which had come from its hiding places at the final legislative behest.

Receipts. *Appendix—1.*

	Bonds.	Call Certificates.	Notes.	Taxes.	Customs.	Bank Loan.
Feby. 18, 1861–1862.	$31,152,660	. . . . . .	$95,790,250	. . . . . .	$1,270,875	$9,813,545
Feb. 18, 1862 to Jan. 1, 1863.	42,773,572	$59,742,796	329,294,885	$16,664,513	668,566	2,539,799
Jan. 1, 1863 to Oct. 1, 1863.	154,840,600	23,475,100	391,623,530	4,128,988	942,900	
Oct. 1, 1863 to Oct. 1, 1864.	312,404,900	61,128,660	543,264,878	101,701,038	518,750	
Total, . .	541,171,732	144,346,556	1,359,973,543	122,494,539	3,401,089	12,353,344

	Sequestration.	Patent Fund.	Repayments.	Miscellaneous.	Tax on Notes.	Total.
1861–2, . . .	. . . . .	. . . . .	. . . . . .	$1,022,673	. . . . . .	$139,051,003
1862–3, ...	. . . . .	$13,920	$3,865,851	2,291,812	. . . . . .	457,855,704
1863– , ...	$1,862,500	10,794	24,638,428	. . . . . .	. . . . . .	601,522,893
1863–4, ...	4,539,490	26,957	62,891,596	6,964,383	$14.440,567	1,106,584 831
Total, . .	$6,401,990	$51,671	$91,395,875	10,278,866	$14,440,567	$2,305,014,431

Bonds. *Appendix—2.*

	Eight per cent.	Seven per cent.	Six per cent.	Four per cent.	Cotton Certificates	Non-taxable 6 p. c.
Feby. 1861–1862.	$31,152,660					
Feby. 1862–1863.	42,773,572					
Jan. — Oct. 1863.	107,292,900	$38,737,650	$6,810,050	. . . . . .	$2,000,000	
Oct. 1863–1864.	2,422,450	2,364,000	14,206,400	$263,394,050	8,975,000	$19,303,900
Total. .	$183,641,582	$41,101,650	$21,016,450	$263,394,050	$10 975,000	$19,303,900

Certificates.

	Six per cent call.	Five per cent call.	Four per cent call.	Certificates Indebtedness	Total.
1861–1862, ...	. . . . . .	. . . . .	. . . . . .	. . . .	$31,152,660
1862–1863, ...	$59,742,796	. . . . . .	. . . . . .	. . . .	102,516,368
1863-	. . . . . .	$22,992,900	$482,200	. . . .	178,315,700
1863-4, ...	. . . . . .	38,812,500	22,316,160	$1,739,100	373,533,560
Total, ...	$59,742,796	$61,815,400	$22,798,360	$1,739,100	$685,518,288

Expenditures. *Appendix—3.*

	War.	Navy.	Civil.	Public Debt.	Total.
Feby. 18, 1861–1862,	$152,844,430	$7,600,485	$5,045,660	. . . . .	$165,490,575
Feby. 18, 1862–Jan. 1, 1863.	341,011,754	20,599,283	13,673,376	$41,727,320	416,971,735
Jan. 1, 1863–Oct. 1, 1863.	377,988,244	38,437,661	11,629,278	91,256,739	510,311,925
Oct. 1, 1863–Oct. 1, 1864.	484,939,816	26,408,525	16,038,973	470,607,163	997,994,472
Total, ...	$1,356,784,244	$93,005,954	$46,387,287	$603,591,222	$2,099,768,707

Appendix—4.

DEPRECIATION OF TREASURY NOTES RATED IN $1.00 OF GOLD.

1861—August, 1.05; October, 1.10; Nov., 1.15-1.17; Dec., 1.18-1.20.

1862—Jan., 1.18-1,22; Feb., 1.25-1.26; Mch., 1.28-1.30; Apr., 1.38-1.40; May, 1.50; August, 1.50; Sept., 1.75; Oct., 2.00; Nov., 2.50; Dec., 3.00.

1863—Jan., 3.10; Feb., 3.33; Mch., 4.20; Apr., 5.00; May, 6.00; June, 7.50; July, 9.00; Aug., 12.00; Sept., 12.50; Oct., 14.00; Nov., 15.00; Dec., 19.00.

1864—Jan., 21.00; Feb., 23.00; Mch., 25.00; Apr., 21.00; May, 19.00; June, 18.00; July, 20.00; Aug., 22.00; Sept., 23.00; Oct., 26.00; Nov., 27-33.00; Dec., 34-42.00.

1865—Jan., 45-50.00; Feb., 50-60.00; Mch., 60.00; Apr., 100.00.

Appendix—5.

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